

# Customer Relationship Management

A Multifaceted Concept

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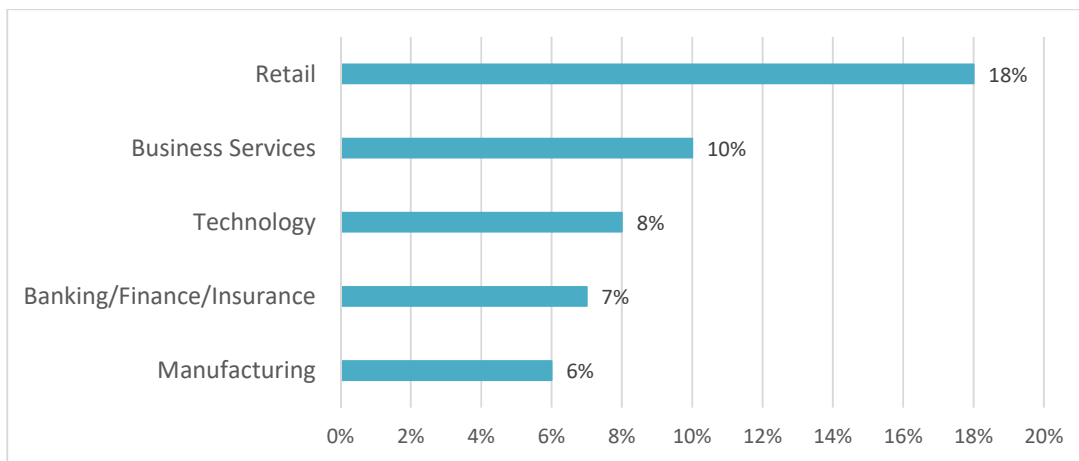
### 1.1. Chapter Objectives

- Study the use of CRM in different industries.
- Introduce a professional definition of CRM.
- Explain the three major components of CRM and their respective elements.

### 1.2. Penetration of CRM

Customer relationship management (CRM) is a hot topic nowadays. Many companies are following this trend to manage relationships with their customers and their business. The practice of CRM varies by industry. Top five industries that use CRM software are retail, business services, technology, banking/insurance/finance, and manufacturing<sup>7</sup>.

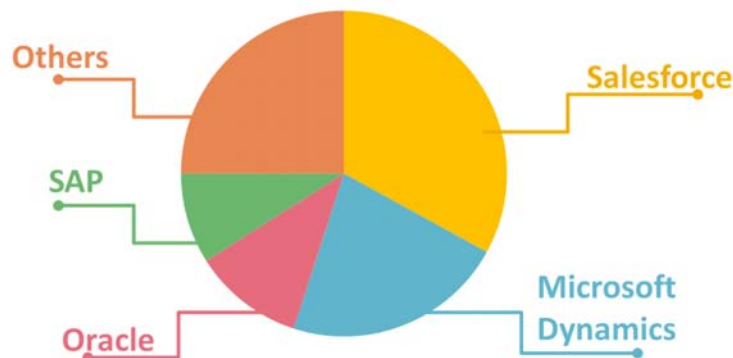
**Figure 1-1 Penetration of CRM**



CRM is not equally important to all businesses. CRM takes a more strategic role when individual customer needs, communication, experiences, satisfaction, loyalty, and relationships are critical to the success of the business. CRM takes a more significant role when customer data is critical in serving individual customers.

In the CRM Software industries, Salesforce is the leader capturing one-third of all CRM users. The four software industry giants Microsoft, Oracle, and SAP account for 75% of the CRM Software market.

**Figure 1-2 Popular CRM Software Providers**



### 1.3. Defining CRM

#### 1.3.1. Definition of CRM

CRM is a strategic decision that adopts technology to integrate and manage customer data sourced from various channels with the focus of (i) understanding and anticipating customer needs, (ii) communicating information, (iii) creating customer experiences, (iv) ensuring customer satisfaction, (v) generating customer loyalty, and (vi) maintaining customer relationship at the individual level.

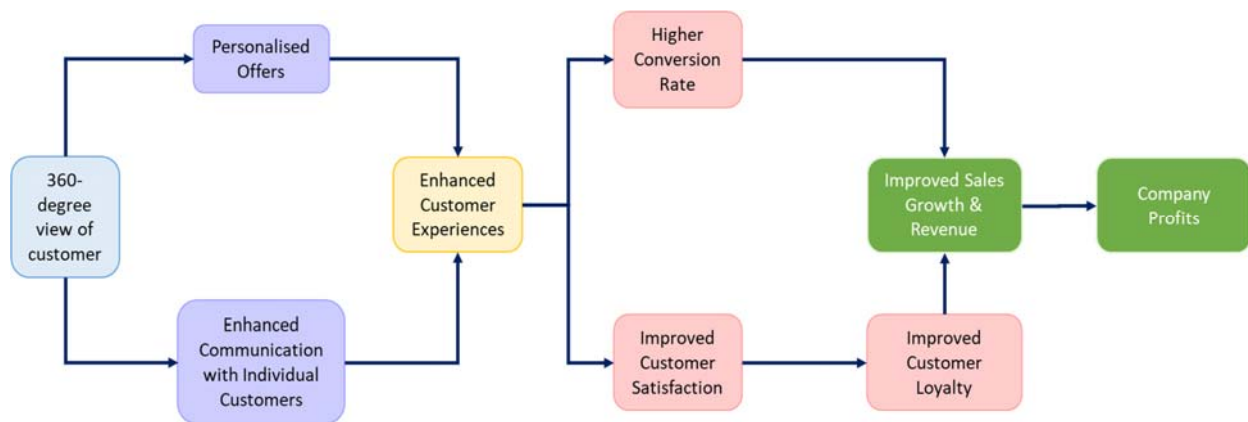


According to the American Marketing Association, CRM seeks to create more meaningful one-on-one communications with the customer by applying customer data (demographics, industry, buying history, etc.) to every communications vehicle<sup>10</sup>. At the simplest level, this would include personalizing e-mail or other communications with customer names<sup>10</sup>. At a more complex level, CRM enables a company to produce a consistent, personalized marketing communication, whether the customer sees an ad, visits a Web site, or calls customer service<sup>10</sup>.

### 1.4. Benefits of Adopting CRM

The ultimate benefit of adopting CRM is improved sales growth and revenue. Through understanding and anticipating customer needs, marketers could have a 360-degree view of each customer. It allows marketers to have a better understanding of the customers. The marketers can, therefore, provide personalised offers and communication in a more effective way, which therefore enhance customer experiences. When customers enjoy shopping experiences, they will be more satisfied, and the sales conversion rate would be greater. Greater customer satisfaction will then improve customer loyalty. Finally, sales and revenue will be improved.

Figure 1-3: Benefits of Adopting CRM



## 1.5. CRM is a Multifaceted Concept

From a holistic perspective, CRM is considered as a multifaceted concept. It consists of three components covering eight elements: Relationship Marketing (RM), Market orientation (MO) and the use of Information Technology (IT) <sup>1</sup>.

Figure 1-4 Three Major Components of CRM



**Component #1 Market Orientation:** Market orientation is defined as “the organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organisation-wide responsiveness to it” (Kohli and Jaworski, 1990: p.6)<sup>8</sup>.

### Market Orientation (MO)

#1.  
Inter-functional  
Coordination

#2.  
Collection and  
Management  
of Knowledge

**Component #2 Information Technology:** “Information technology possess the capability to modify the interaction and relationship patterns between customers and company, or even among customers themselves, as well as to alter the extent of customer involvement in a relationship” (Sum, 1997: p.47)<sup>1</sup>.

### Information Technology (IT)

#3.  
Utilisation of  
IT  
Technologies

**Component #3 Relationship Marketing:** “Relationship marketing is to establish, maintain, enhance and commercialise customer relationships so that the objectives of the parties involved are met. This is done by a mutual exchange and fulfilment of promises” (Grönroos, 1990: p.5)<sup>9</sup>.

### Relationship Marketing (RM)

#4.  
Relationship  
Outcomes

#5.  
Relationship  
Characteristic

#6.  
Interaction &  
Engagement

#7.  
Relationship  
Stages and  
Strategies

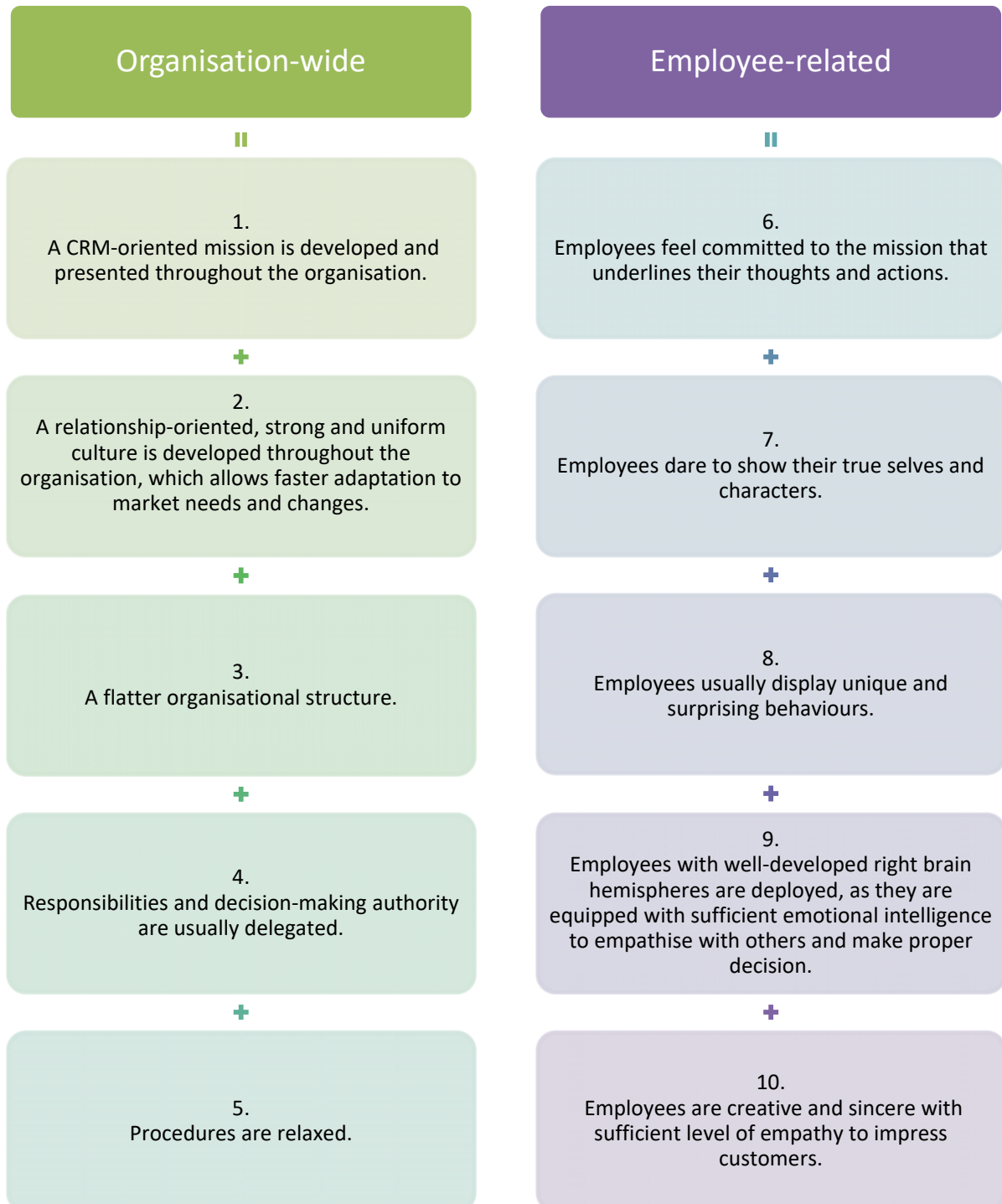
#8.  
Relational  
Benefits

## 1.6. Elements of Market Orientation

### 1.6.1. Element #1 Inter-functional Coordination

The first element of market orientation is inter-functional coordination. Information and knowledge have to be disseminated among departments, and then they are coordinated to provide value propositions and services oriented towards customers. Companies implementing CRM usually have the following ten features<sup>4</sup>:

**Figure 1-5 Ten Features of a CRM Company**



### 1.6.2. Element #2 Collection and Management of Knowledge

Market orientation has long been developed and discussed in the literature. The first element is the collection and management of knowledge. **Knowledge Management** covers three aspects: customer, competitor, and environment. **Knowledge** is derived from the appropriate analysis and cognitive consolidation of information in a way that makes it useful. **Information** is processed data. **Raw Data** are facts or numbers collected from various sources, e.g. databases, transaction records, survey, focus group discussion, industrial reports, observations, competitors' studies, market trend reports, etc.

Figure 1-6 Three Aspects of Knowledge Management

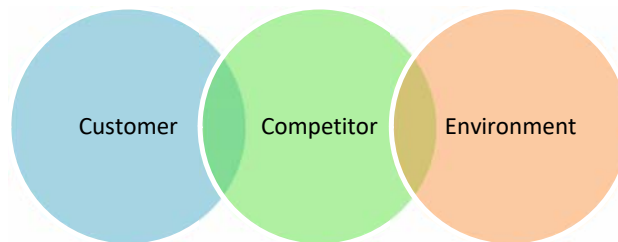
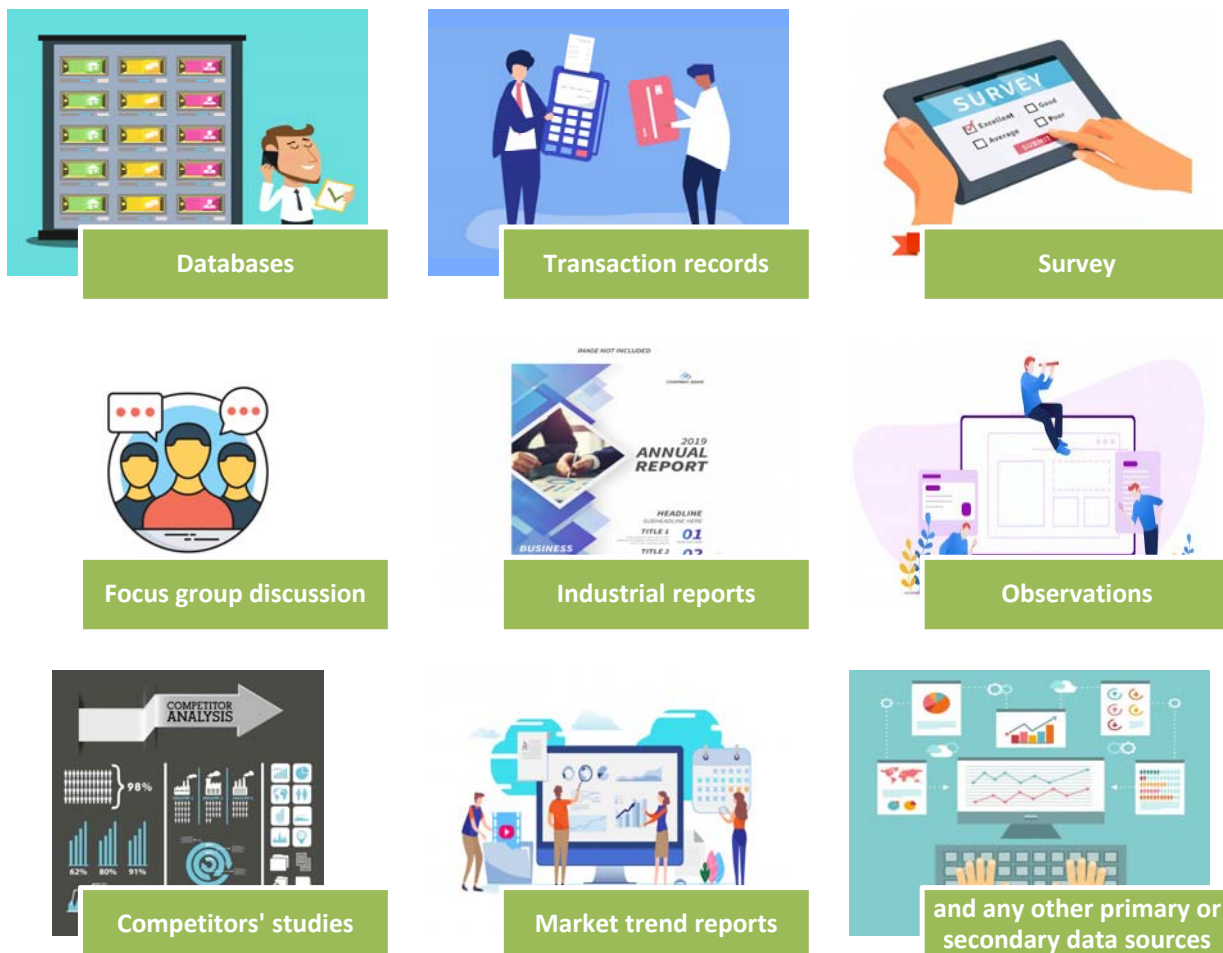


Figure 1-7 Examples of Data Sources



Organisations have to collect various kinds of **raw data**, and then generate relevant **information** through simple processing, and in turns derive **meaningful knowledge** through examining patterns within a given set of information for better understanding the customers, competitors, and the environment. Based on the knowledge, the organisation can design attractive and customer-oriented value propositions with competitive advantages, as well as satisfactory services for customers.

Figure 1-8 Transforming Data into Information, and then Knowledge

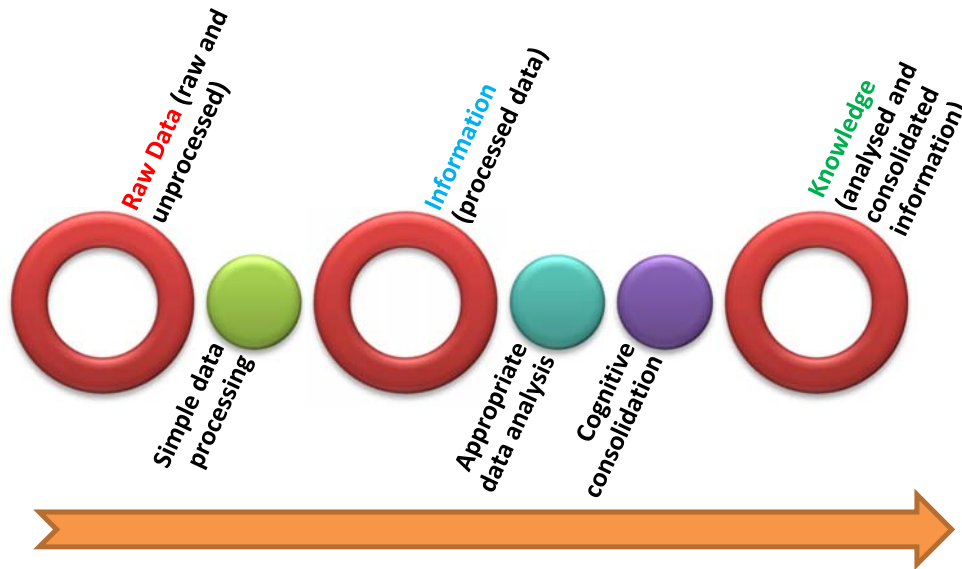


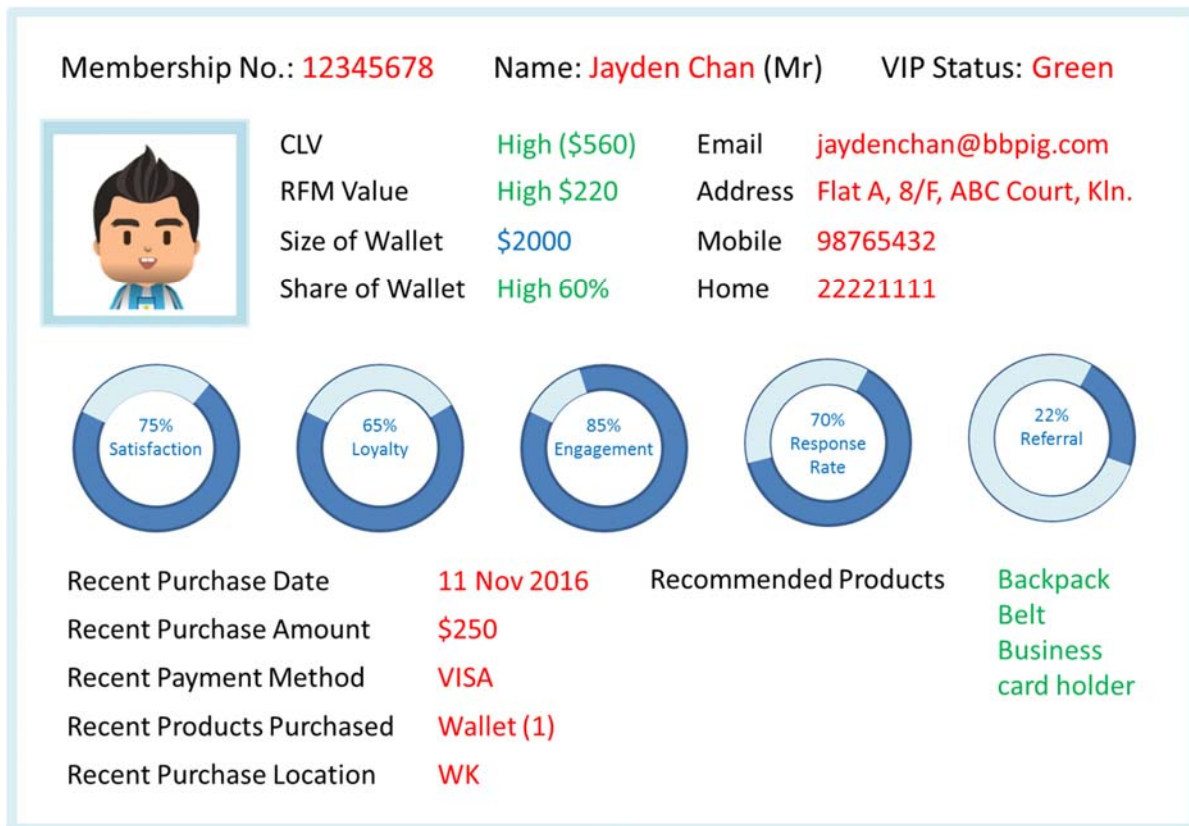
Figure 1-9 Game Corner

**Instruction:** Classify the following cases into data, information, or knowledge.

Cases	Raw Data / Information / Knowledge
1. The purchase amount of \$300 made by an individual customer on a specific date	
2. Processed information of the market trend about mobile technologies collected from an industrial report	
3. The total annual spending of each customer was calculated according to all purchase data from the transaction database	
4. The date and access time of a consumer visiting a web site – 9 Jul 2019 10:01pm	
5. More advertising budget could be spent on customers with greater-than-average customer lifetime value (CLV)	
6. The average time a consumer visiting a web site is around 30 minutes, which was calculated by the starting time and ending time of the site visit	
7. Members at Silver Membership Tier with annual purchase amount less than \$5000 could be promoted the membership renewal offer by the end of this membership year.	

Organisations can also make use of the information and/or knowledge to generate customer profiles, which consolidate the information of individual customers. A **customer profile** is a description of a customer that may include raw data, processed information, and analysed knowledge. Further discussion will be in Chapters 6 and 7.

**Figure 1-10 Example of a Customer Profile**



Raw Data	Information	Knowledge
Membership number	Size of Wallet <sup>a</sup>	CLV (Customer Lifetime Value)
Name	Satisfaction <sup>a</sup>	RFM value (Recency frequency monetary value)
VIP Status	Loyalty <sup>a</sup>	Share of wallet
Email	Engagement	Recommended products
Address	Response Rate	
Mobile	Referral <sup>a</sup>	
Home		
Recent purchase date		
Recent purchase amount		
Recent payment method		
Recent products purchased		
Recent purchase location		

<sup>a</sup>: They are processed from raw data in this case. If they are directly sought from the customers, then they become raw data.

### 1.6.2.1. Examples of Data/Information

There are various kinds of data and/or information could be collected or processed. They can be classified into several aspects and summarised below:

**Figure 1-11 Examples of Customer Data/Information**

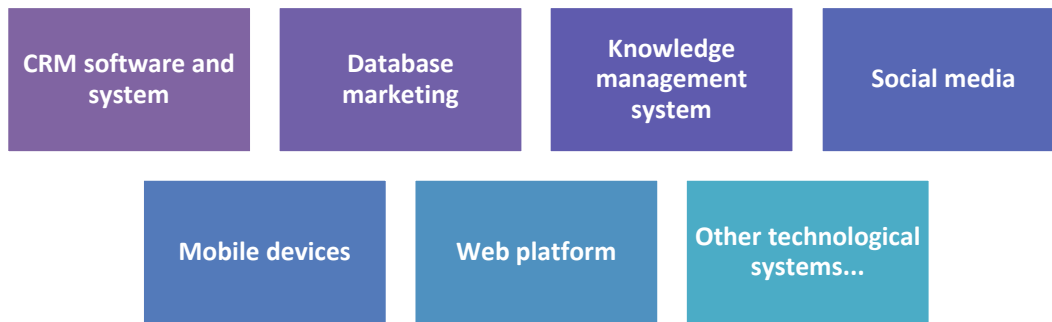
Aspects	Data
<b>1. Segment</b>	<ul style="list-style-type: none"> <li>• In which segment should the customer be placed?</li> </ul>
<b>2. Customer Value</b>	<ul style="list-style-type: none"> <li>• Contribution to profit on an annual basis</li> <li>• Share of wallet</li> <li>• Customer lifetime value</li> </ul>
<b>3. Transactions</b>	<ul style="list-style-type: none"> <li>• Turnover and profit contributions of purchases</li> <li>• Description of the purchase</li> <li>• Method of payment</li> <li>• RFM (Recency, Frequency and Monetary) data</li> </ul>
<b>4. Products</b>	<ul style="list-style-type: none"> <li>• Products being purchased, quantities and at what time</li> <li>• Expiration of warranty period</li> <li>• Repair services consumed and types of repair services used</li> <li>• Product ownership</li> </ul>
<b>5. Communication through the Internet</b>	<ul style="list-style-type: none"> <li>• The address used to log in</li> <li>• The page customers used to enter the site</li> <li>• Clickstream and log files</li> <li>• The page customers exit the site</li> <li>• Duration of visit</li> <li>• Banners responded to</li> </ul>
<b>6. Communication by telephone</b>	<ul style="list-style-type: none"> <li>• When, what, and who initiated the contact</li> <li>• Who was/were the contact person(s) within an organisation</li> </ul>
<b>7. Other communication</b>	<ul style="list-style-type: none"> <li>• Which mailings receive and when</li> <li>• Any responses made</li> <li>• When and which direct response ad responded</li> <li>• Preference for communication channels</li> <li>• Notification from customers about the preferences of excluding from certain marketing communication activities</li> </ul>
<b>8. Customer satisfaction</b>	<ul style="list-style-type: none"> <li>• Satisfaction with products, services, communication, etc.</li> <li>• General satisfaction with supplier/brands</li> </ul>
<b>9. Customer characteristics</b>	<ul style="list-style-type: none"> <li>• Identification data</li> <li>• Type of residence/city</li> <li>• Demographic data</li> <li>• Psychographic data</li> </ul>

## 1.7. Elements of Information Technology

### 1.7.1. Element #3 Utilisation of Information Technology

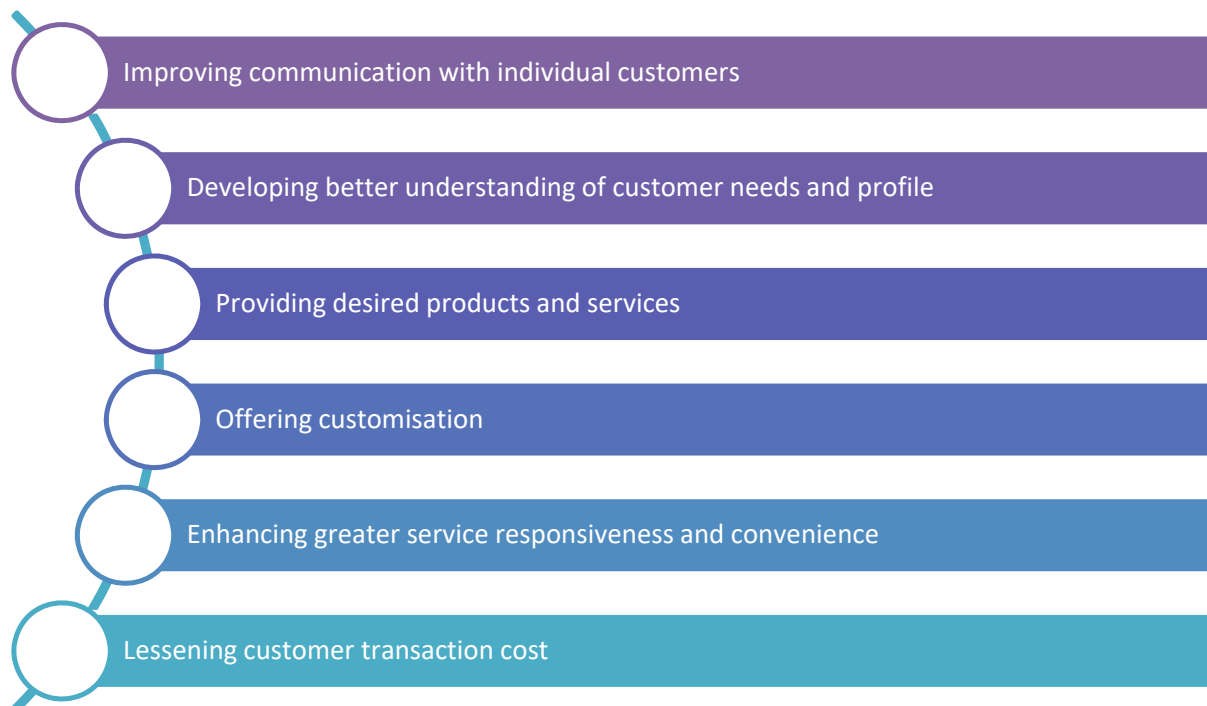
CRM Software and System, as well as database marketing, are popular information-technological tools used to manage customer data and relationships. The tools and systems are used to collect and analyse the customer data and then disseminate to respective departments for strategies design and development. Other than the above two systems, companies can adopt knowledge management system, social media, mobile devices, web platform or other technological systems to support the implementation of CRM.

**Figure 1-12 A List of Information Technology for CRM**



These technologies have unique capabilities and features to influence relationship through<sup>4</sup> the following aspects and further discussion will be in Chapters 4 and 5:

**Figure 1-13 Influence of Information Technology on CRM**



## 1.7.2. Database Marketing for CRM

Database marketing is the process of building, maintaining, and utilising customer databases and other databases (e.g. inventory, logistics, and supplier databases) for the purposes of contacting, transacting, and building customer relationships. Usually, there are five ways to use the databases in CRM<sup>7</sup>:

### 1.7.2.1. Identify Prospects and Generate Sales Lead

Marketers could develop a database through organising events or promotions to attract suspects to leave contact detail.

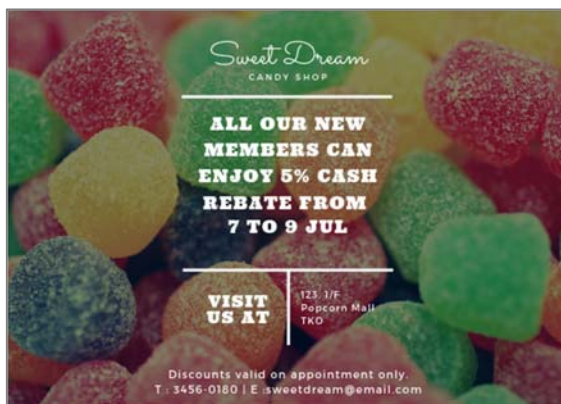
The events or promotions require to have response features that the marketers can identify prospects among the suspects, and then generate sales lead.

Examples of response features may include shop address, hotlines, response form, sample or coupon request form, etc.



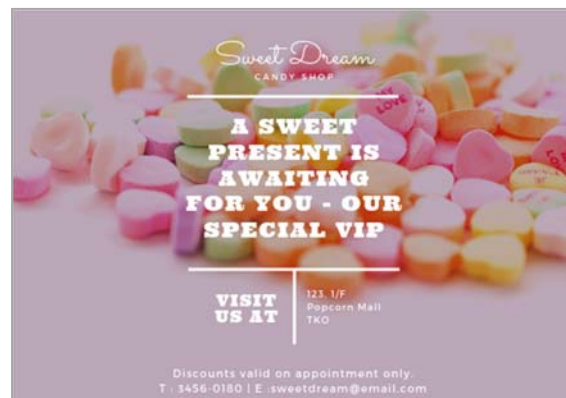
### 1.7.2.2. Decide Differentiated Marketing Packages

Customers have different needs and want, and they should be treated differently by targeted and customised marketing packages. Marketers can segment the customers into groups by using different data listed in the customer database, for examples, recent purchase date, customer lifetime value, RFM value (Recency Frequency Monetary Value), the cumulative purchase amount, demographic data, etc. Differentiated marketing packages should be specific, attractive, and highly relevant to the needs of targeted customers or groups, which ensure greater responses and more continuous purchases.



**Promotion Targeted at New Members**

**Promotion Targeted at Loyalty Members**



### 1.7.2.3. Deepen Loyalty through Rewards

For deepening customer loyalty, marketers could make use of rewards to generate their continuous purchase.

Marketers have to remember customer preferences through reviewing the customer database, and then offer customers through the most relevant and attractive rewards.

Examples of rewards may include coupons, free samples, premiums, discounts, etc. The key to success is to understand customers' individual preferences and then offer personalised rewards.



### 1.7.2.4. Reactivate Customer Purchases

Marketers should reactivate customer purchase periodically by using automatic mailing programmes to screen out potential targets from the customer database, and then send out timely and attractive offers, for examples birthday cards and offers, anniversary shopping privileges, holiday shopping reminders, and/or off-season promotion. This database strategy will help remind the brand in customers' mind and encourage them to keep purchasing.

#### Brand's Anniversary Offer



#### Cyber Monday Offer



### 1.7.2.5. Avoid Serious Customer Mistakes

The use of databases to record customers' purchase, complaints and enquiries allow marketers to serve their customers better.

The customer service representatives can refer to the customer profile to provide the most relevant and up-to-date offers, which in turns ensure greater customer satisfaction and loyalty. This practice also avoids different representatives to offer different marketing packages to the same customers, as well as inappropriately treats valuable and profitable customers.

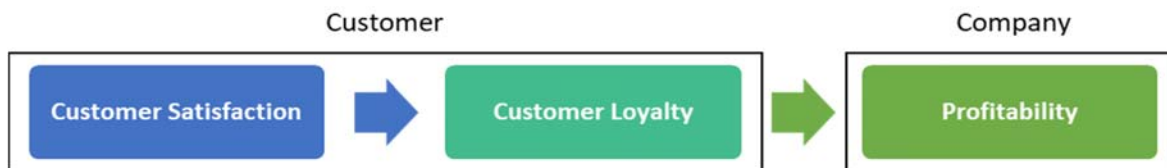


## 1.8. Elements of Relationship Marketing

### 1.8.1. Element #4 Relationship Outcomes

The expected outcomes of CRM are classified into two aspects: company and customer. For company aspect, the ultimate objective is to achieve profitability. For the customer perspective, the outcomes are expected to have greater customer satisfaction and loyalty (including retention, repeat purchase and referral). Based on the service-profit chain concept as developed by Heskett et al. (1994)<sup>3</sup>, we have to ensure greater customer satisfaction and loyalty in order to achieve greater profitability. Profitability, customer satisfaction, and customer loyalty are the expected relationship outcomes of CRM. Further discussion will be presented in Chapter 2. Some measures or metrics could also be adopted and calculated to recognise the effectiveness of CRM strategies. Further discussion will be in Chapter 12.

**Figure 1-14 Relationship Outcomes**



### 1.8.2. Element #5 Relationship Characteristic

Buyer-seller relationship should be aimed at the lifelong or enduring basis, depending on the product nature. CRM is not an ad-hoc or discrete project. It is different from a transactional marketing strategy. It focuses on maintaining enduring relationships with customers through various marketing mix strategies to support the implementation of CRM. Calculation of Customer Lifetime Value (CLV) helps measure the profitability over customers' lifetime. The related discussion will be in Chapters 2, 8, 9, and 10.

**Figure 1-15 Relationship Characteristic**



Organisations with a relationship marketing strategy in place should have a longer-term horizon and a broader interest in the right customers. The focus is to “tell and listen”. Their interest in individual customers does not end at the moment the transaction is completed. Indeed, the purchase only marks the beginning of a relationship in which trust and commitment must grow. Organisations start developing a relationship with a customer when the deal is closed.

**Figure 1-16 Differences between Transactional Marketing and Relationship Marketing<sup>4</sup>**

	Transactional Marketing	Relationship Marketing
<b>Horizon</b>	Short-term	Long-term
<b>Interest in Customers</b>	Limited interest	Broader interest, but the right customers only
<b>Focus</b>	Sell	Tell and listen
<b>Criterion for Success</b>	Market share	Customer loyalty
<b>Transaction Completed</b>	Mission completed	Mission Begins – Develop trust and commitment

### 1.8.3. Element #6 Omnichannel Marketing and Interaction

Dynamic interactions and consumer engagement are the necessary conditions of a relationship between a customer and a company. The commitment of two parties to communicate with each other is required. Companies could make use of multichannel to communicate and interact with customers anywhere and anytime seamlessly, and we call this as “**Omnichannel Marketing**”. Right-time information could be generated and updated across channels, which helps generate accurate knowledge to optimise the value propositions and related strategies for individual customers. Further discussion will be in Chapters 2, 3, 4, and 5.

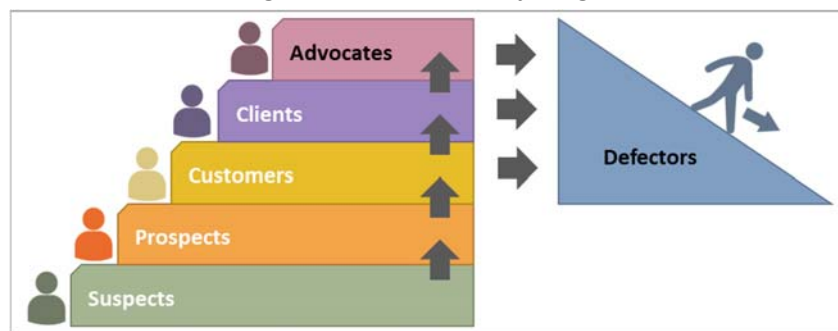
Figure 1-17 Features of Interaction



### 1.8.4. Element #7 Relationship Stages and Strategies

In relationship marketing, the relationship with customers goes through six stages, and each stage involved a different type of consumers and customers from suspects, prospects, customers, clients to advocates<sup>2,5,6</sup>. If customers, clients or advocates leave the relationship with the organisation, they are called defectors. Each has different features and has to be properly managed and developed. CRM Strategy cycle could be used to manage the relationships with each of them. Further details of the above strategies and stages will be discussed in Chapters 2 and 9.

Figure 1-18 Relationship Stages



### 1.8.5. Element #8 Relational Benefits

Encouraging customers to stay in a relationship should accompany the value propositions with benefits geared towards customers' wishes. Benefits could be classified into five levels from economic benefits, social benefits, psychological benefits, customisation benefits, to structural bonds. Economic benefits are usually used to target customers situated at the lowest level of the relationship hierarchy; whereas structural bonds are usually delivered to those at the highest relationship level. Further discussion will be in Chapters 2 and 9.

Figure 1-19 A List of Relational Benefits



## 1.9. Chapter Summary

1. CRM is a multifaceted concept which consists of three key components of CRM: relationship marketing, market orientation, and information technology.
2. Relationship outcomes include profitability, customer satisfaction, and customer loyalty.
3. The main types of the customer relationship are suspects, prospects, customers, clients, advocates, and defectors.
4. A customer profile is a description of a customer that may include raw data, processed information, and analysed knowledge. Sources include databases, transaction records, company reports, etc.
5. Salesforce, Microsoft Dynamics, Oracle, and SAP are the four main vendors of CRM software.

## 1.10. Key Terms

**Customer Lifetime Value (CLV)** is the net present value of the future contribution by a customer to the overhead and profit of a company.

**Customer Relationship Management (CRM)** is a management system involving dynamic and interactive exchange process that covers the activities of acquiring potential customers, identifying profitable customers, understand customer profile, anticipating customer needs, and managing profitable customer relationships. Various kinds of information-technological supports have to be adopted to manage customer data, develop value propositions, and facilitate relationships with customers on a long-term or lifelong basis. The ultimate purpose is to attain profit through achieving customer satisfaction and loyalty.

**Database Marketing** is the process of building, maintaining, and utilising customer databases and other databases for the purpose of contacting, transacting and building customer relationships.

**Knowledge Management System (KMS)** refers to a system used to manage knowledge in organisations for supporting creation, capture, storage and dissemination of information.

**Market Orientation (MO)** refers to putting the marketing focus towards target customers through developing marketing consciousness within an organisation and setting up a real-time information system for managing customer data.

**Omnichannel Marketing** is a multichannel communication approach with the focus on customers' experiences. It orchestrates the customer experience across all channels to ensure a seamless, integrated, and consistent communication.

**Relationship Marketing (RM)** is the establishment and maintenance of relationships with targeted customers and other related parties by achieving mutual exchange and fulfilment of promises.

## 1.11. Concept Check Quiz

1. Identify the three major components of CRM.
2. What are the expected outcomes of doing CRM?
3. What are the characteristics of a relationship?
4. Compare transactional marketing with relationship marketing.
5. Provide any two examples of information technology for implementing CRM.
6. List out any three relational benefits.
7. What are the differences among data, information, and knowledge?
8. Which industry has the highest penetration of CRM?
9. Which CRM software provider dominates the market?

### 1.12. Concept Challenge Quiz

1. “Miss Fat” snack store is famous in offering fish balls, meatballs, shaomai, and other local food for consumers.
  - a. Criticise the value/benefits for “Miss Fat” snack store to implement CRM.

**Hint:** Analyse the level of consumer involvement, number of customer interaction and interaction complexity of snack store to answer this question.

2. HK Disneyland is one of the two large theme parks in Hong Kong.
  - a. Criticise the value for HK Disneyland to implement CRM.

**Hint:** Analyse the level of consumer involvement, the number of customer interaction and interaction complexity of theme park for this question.

### 1.13. References

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## Chapter 2 Relational Elements for CRM

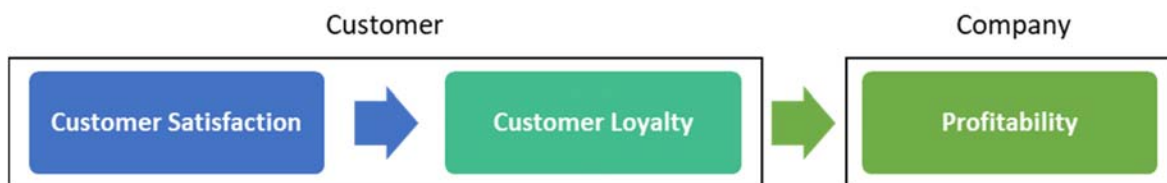
### 2.1. Chapter Objective

- Explain the major relational elements of CRM: relationship outcomes, relationship characteristics, interaction and multichannel communication, relationship stages and strategies, and relational benefits.

### 2.2. Element #4: Relationship Outcomes

The relationship outcomes of CRM include profitability, customer satisfaction, and customer loyalty. The ultimate purpose of adopting CRM in business is to attain profit through achieving customer satisfaction and loyalty for companies. These three concepts are highly related.

**Figure 2-1 Relationship Outcomes**

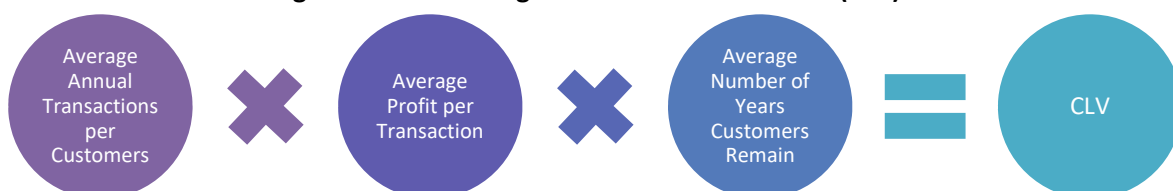


According to the service-profit chain, as developed by Heskett et al. (1994), revenue growth and profitability are driven by customer loyalty, and which is affected by customer satisfaction. The key to enhancing satisfaction originates in internal service quality. Good internal service quality can induce greater employee satisfaction, and in turns, enhance employee retention and employee productivity, respectively. The magnitudes of employee retention and employee productivity can affect external service value. Once the value is designed and delivered to meet the targeted customers' needs, customer satisfaction is then achieved, and then loyalty is improved. Improved loyalty will then generate greater revenue and profitability, respectively.

### 2.3. Element #5: Relationship Characteristics

CRM aims to achieve a lifelong or enduring relationship with customers. It is a continuous strategy that organisations have to understand customer needs in each interaction and then deliver appropriate products and services in the forthcoming interactions. Calculating Customer Lifetime Value (CLV) helps measure the profitability over customers' lifetime. Customers do not have an equal value to the organisation. CLV helps estimate how much that person is worth to the business and then decide how much budget and effort should be put to keep this person in the relationship. The calculation of CLV involves three behavioural data:

**Figure 2-2 Calculating Customer Lifetime Value (CLV)**



**Example of CLV – (1):**

Jay's Home Sweet Home provides hospitality services for travellers. The three past behaviours collected from a database about all of its customers were as follows:

<b>Average Annual Transactions per Customer</b>	Once a year
<b>Average Profit per Transaction</b>	\$250 <i>Option 1: Profit = Revenue – Costs – Expenses</i> <i>Option 2: Profit = Revenue <math>\times</math> Profit Rate</i>
<b>Average Number of Years Customers Remain</b>	2 years

According to the above information, the CLV of all customers =  $1 \times \$250 \times 2 \text{ years} = \$500$ .

**Example of CLV – (2):**

Jay's Home Sweet Home found that the CLV of its customers is \$500. It further identified three groups of customers to keep consuming its hospitality services. They are vacationing families, business travellers, and singles. The communication channels used to reach these three segments varied. It decided to assign its \$1000 advertising budget according to their CLV.

	<b>Families</b>	<b>Business travellers</b>	<b>Singles</b>
<b>Average Annual Transactions per Customer</b>	1	5	2
<b>Average Profit per Transaction</b>	\$260	\$80	\$100
<b>Average Number of Years Customers Remain</b>	2	3	2
<b>CLV</b>	\$520	\$1,200	\$400
<b>Communication Channel</b>	Mobile Ads	Search engine marketing	Travel magazines
<b>Advertising Budget (\$1000)</b>	$\$1000 \times \frac{\$520}{\$520 + \$1200 + \$400}$ = \$245	$\$1000 \times \frac{\$1200}{\$520 + \$1200 + \$400}$ = \$566	$\$1000 \times \frac{\$400}{\$520 + \$1200 + \$400}$ = \$189

Figure 2-3 Game Corner

**Instruction: Calculate CLV for the following case.**

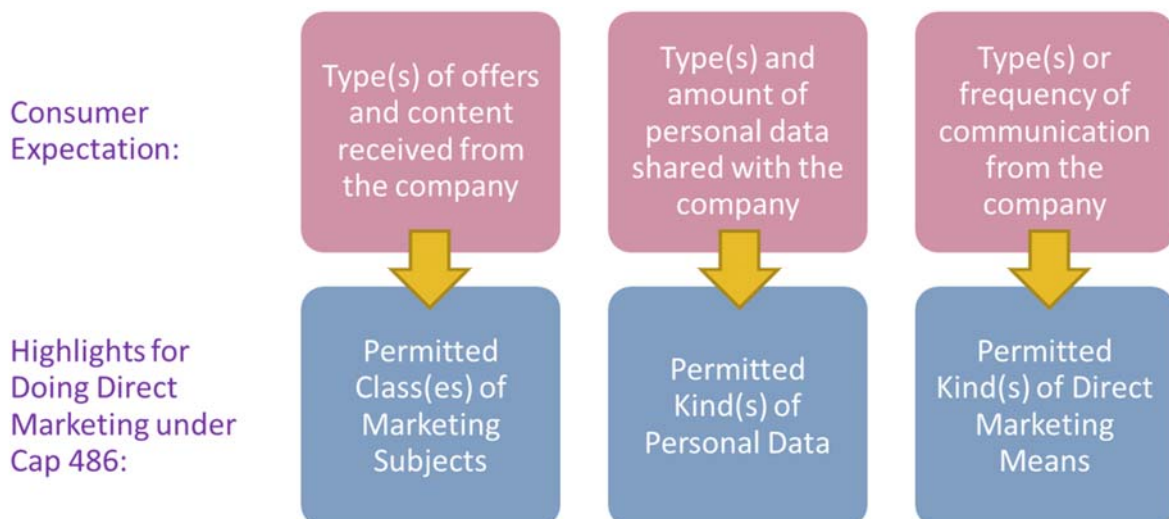
Cases	Steps	Answers (Annual-based CLV)
1. The average monthly transactions per customer are 2. The average profit per transaction is \$10. The average number of years customers remain is 2.		
2. The average annual transactions per customer are 10. The average revenue per transaction is \$20. The average costs and expenses per transaction are \$12. The average number of years customers remain is 3.		

#### 2.4. Element #6: Omnichannel Marketing and Interaction

For doing omnichannel marketing, digital, online, offline, and traditional channels should be well-blended to create greater customer experiences, and therefore deepen customer relationships. Marketers have to use various types of channel strategy to enhance customer engagement, rather than bombard them with relentless messages, alerts, or notification from the single channel. Gamification and contests, as well as mobile marketing devices and social media marketing, could be used wisely to facilitate communication with customers.

From the consumers' perspective, they usually prefer a certain amount of control over data/information they give to and receive from companies in three areas: (1) types of offers and content received from the company; (2) type and amount of personal data shared with the company, and (3) type or frequency of communication from the company. This expectation in these three areas uncovers marketers' consideration of data privacy and consumer consent in doing direct marketing. Further discussion will be in Chapter 7.

Figure 2-4 Consumers' Expectation of the Data/Information for Communication



**Figure 2-5 Examples of Communication Channels**

<b>Traditional Advertising</b>	Newspaper, Magazine, TVC, Packaging outer, Packaging insert, Brochure or booklets, Posters, Leaflets, Billboards, POP displays, Display signs and logos, etc.
<b>Internet Marketing</b>	Official website, Web banner, Web pop-up window, In-app advertising, etc.
<b>Digital Advertising</b>	Digital billboard, Videos, Podcasting, etc.
<b>Mobile Marketing</b>	Smartphone/Mobile application, QR code, Text messaging, Location-based mobile marketing, etc.
<b>Social Media Marketing</b>	Facebook, Twitter, Weibo, LINE, Instagram, YouTube, Blog, etc.
<b>Email Marketing</b>	Email list and great email contents, etc.
<b>Search Engine Marketing</b>	Keyword search, Search engine optimisation (SEO), Paid search ads, Paid search advertising, Pay per click (PPC), etc.
<b>Direct Marketing</b>	Telemarketing, Fax mail, Catalogues, Direct mail, etc.
<b>Event Marketing</b>	Company-sponsored activities and programs designed to create daily or special brand-related interactions, e.g. Sports, Entertainment, Festivals, Arts, Causes, Factory tours, Company museums, Street activities, etc.
<b>Personal Selling</b>	Sales representatives & presentation, Sales meetings, Fair and trade shows, etc.
<b>Word-Of-Mouth Marketing</b>	Person-to-person, Chat rooms or forum, Blog, Referral Campaign, etc.
<b>Public Relations and Publicity</b>	Press kits, Seminars, Publications, Company magazine, etc.
<b>Sales Promotion</b>	Contests and gamification, Sweepstakes and lotteries, Premiums and gifts, Samples, Exhibits, Coupons, Rebates, etc.



## 2.5. Element #7: Relationship Stages and Strategies

The six types of customer in relationships could be managed by three CRM strategies<sup>2</sup>. For suspects and prospects, they could be managed by acquisition and development strategies<sup>2</sup>. For customers, clients, and advocates, retention and loyalty strategies could be used<sup>2</sup>. About defectors, marketers have to adopt win-back strategies<sup>2</sup>. Details of the strategies could be found in Chapter 9.

Figure 2-6 Relationship Stages and Strategies

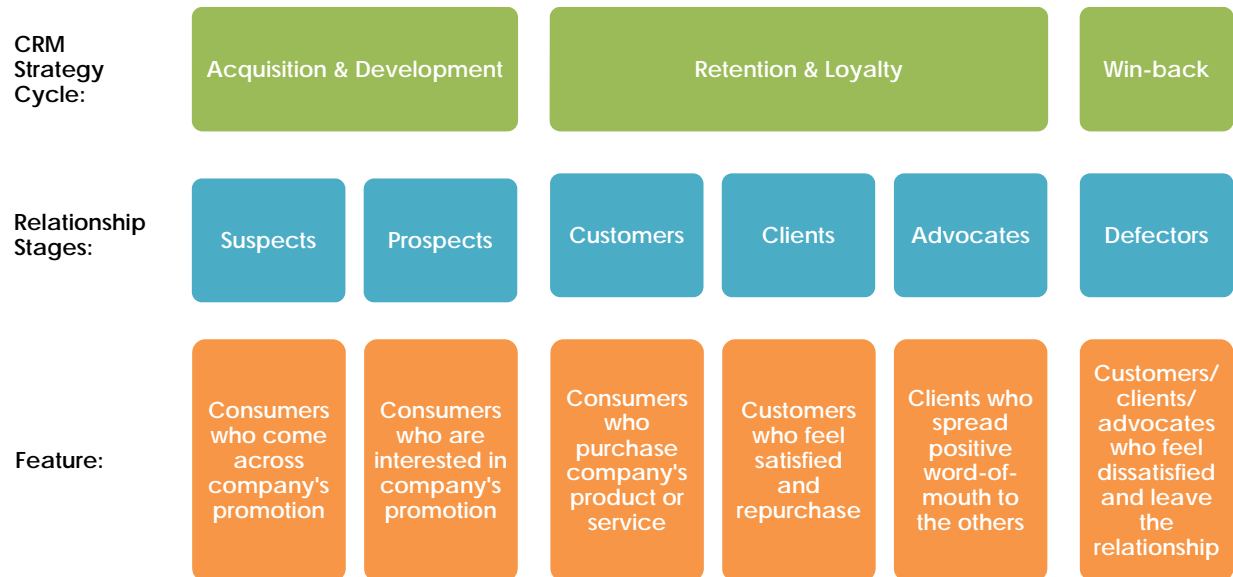


Figure 2-7 Game Corner

**Instruction: Identify the type of customer relationship and respective CRM strategy.**

	Type of Customer Relationship	CRM Strategy
1. Peter enjoyed his <u>first</u> visit with families at ABC Resort in Thailand. He plans to have visit again at ABC Resort next year.		
2. Tina stopped visiting ABC Resort in Thailand since she broke up with her boyfriend at this resort one year ago.		
3. Jenny is a <u>fan</u> of ABC Resort in Thailand. She “likes” its Facebook Fan Page since its launch. She plans to have her graduation trip at the resort two years later.		
4. Tom <u>recommended</u> ABC Resort to his best friend, Ray, after several satisfactory visits at this resort in the last few years.		
5. Mandy is reading a leisure and travel magazine, and she <u>came across</u> an ad about ABC Resort in Thailand.		
6. Nicole <u>usually chooses</u> ABC Resort when she travels to Thailand. She is <u>happy</u> with its services and facilities, especially the SPA services.		

## 2.6. Element #8: Relational Benefits

There are five types of relational benefits that could be offered to suspects, prospects, customers, clients, advocates, and defectors who are at different relationship stages. They should be provided with different types of benefits depending on their status and situation. Economic benefits could be offered to induce their interest in the brand and products. Social benefits could be used to strengthen social relationships with them. Psychological benefits are aimed to enhance a secure and satisfied feeling.

**Figure 2-8 Five Levels of Benefits to Customers**

Five Levels of Benefits	Meaning	Examples
<b>1. Economic benefits</b>	Price-oriented advantages or economic considerations in relationships.	<ul style="list-style-type: none"> <li>• Discounts</li> <li>• Premiums</li> <li>• Price breaks</li> <li>• Time savings, etc.</li> </ul>
<b>2. Social benefits</b>	Benefits earned through human contact in the service delivery process.	<ul style="list-style-type: none"> <li>• Party or gatherings with other customers and/or staff</li> <li>• User support group</li> <li>• Customer community, etc.</li> </ul>
<b>3. Psychological benefits</b>	A comfort or feeling of security in having a relationship. Any actions or offers that could enhance satisfaction, comfort, reliability, trust, confidence, security, peace of mind, control, relationships, brand name, or those that can reduce anxiety, etc.	<ul style="list-style-type: none"> <li>• A team of service supporting staff</li> <li>• Service policies and guidelines</li> <li>• Quality rules</li> <li>• Ethics and privacy policies, etc.</li> </ul>
<b>4. Customisation benefits</b>	Benefits tailored to individual needs or preference.	<ul style="list-style-type: none"> <li>• Customised products or services</li> <li>• Extra or additional services</li> <li>• Specialised consideration, etc.</li> </ul>
<b>5. Structural bonds</b>	Value-added benefits which are unavailable from competitors, or benefits that could increase switching barriers or costs to consumers.	<ul style="list-style-type: none"> <li>• Free technological system</li> <li>• Free technical services and support</li> <li>• Any actions that increase switching barriers or costs, etc.</li> </ul>

**Figure 2-9 Game Corner****Instruction: Identify the most appropriate benefit for the following cases.**

Cases	Types of Appropriate Benefits
1. Elsa is a fresh graduate and decides to buy some cosmetics for her coming job interviews. She learnt “Bla Bla Bla Cosmetics” from her friend. She is now at the counter, which type of benefits would be the most appropriate to induce her purchase and start the relationship with Elsa?	<input type="checkbox"/> Economic benefits <input type="checkbox"/> Social benefits <input type="checkbox"/> Psychological benefits <input type="checkbox"/> Customisation benefits <input type="checkbox"/> Structural bonds
2. Joe is the owner of BB Café. He decides to install a new membership system to manage the transactions and data of its members. If you were the sales manager of WOW IT Company and are approaching Joe (your existing loyal customer) to introduce the upgraded membership system of your company, which type of benefits would be the most appropriate to keep and strengthen the relationship with Olaf’s BB Café?	<input type="checkbox"/> Economic benefits <input type="checkbox"/> Social benefits <input type="checkbox"/> Psychological benefits <input type="checkbox"/> Customisation benefits <input type="checkbox"/> Structural bonds
3. Belle is new to Apple iPhone and iPad Pro. Apple HK invited Belle to join a series of workshops to get more knowledge about the use of iPhone and iPad Pro, as well as get in touch with other customers who have similar experiences with her. Which type of benefits was used in this case?	<input type="checkbox"/> Economic benefits <input type="checkbox"/> Social benefits <input type="checkbox"/> Psychological benefits <input type="checkbox"/> Customisation benefits <input type="checkbox"/> Structural bonds
4. Jaymee is a profitable and loyal customer of Sunshine Fitness. She has joined various kinds of workshops and training offered by Sunshine Fitness, e.g. yoga, dancing, running, etc. She feels satisfied with all workshops and training sessions, seems she is difficult to find a better one in the market. However, she wants to look for some courses, particularly for her personal physical situation and needs. Which type of benefits would be the most appropriate to strengthen the relationship with Jaymee?	<input type="checkbox"/> Economic benefits <input type="checkbox"/> Social benefits <input type="checkbox"/> Psychological benefits <input type="checkbox"/> Customisation benefits <input type="checkbox"/> Structural bonds
5. Stephen has been the members of Rainbow Restaurant for years. Recently, Rainbow Restaurant was accused of offering expired food to consumers. For handling this scandal, which type of benefits would be the most appropriate to gain back Stephen’s trust and sustain the relationship with him?	<input type="checkbox"/> Economic benefits <input type="checkbox"/> Social benefits <input type="checkbox"/> Psychological benefits <input type="checkbox"/> Customisation benefits <input type="checkbox"/> Structural bonds
6. ABC bakery school decides to set up a user sharing group to a specific group of customers that they can share their cooking experiences, recipes, and techniques with each other. Also, they are invited to join a special course that there will be only four students in a class to ensure a comfortable environment and more confidence towards the instructor and the school. Which type(s) of benefits was used in this case?	<input type="checkbox"/> Economic benefits <input type="checkbox"/> Social benefits <input type="checkbox"/> Psychological benefits <input type="checkbox"/> Customisation benefits <input type="checkbox"/> Structural bonds

## 2.7. Chapter Summary

1. The relationship outcomes of CRM are profitability, customer loyalty, and customer satisfaction. These three outcomes are inter-related.
2. The calculation of CLV has three data: Average Annual Transactions per Customers; Average Profit per Transaction; and Average Number of Years Customers Remain.
3. Communicating with customers in the multichannel setting is good for CRM.
4. Consumers/Customers can be classified according to relationship levels, and organisations should adopt CRM strategies relevant to their relationships.
5. Customers could adopt more than one type of benefits in a relationship.

## 2.8. Key Terms

**Cross-sell** is to get the customer to spend more money to buy products from other categories than the product being viewed or purchased.

**Customer Lifetime Value (CLV)** is the net present value of the future contribution by a customer to the overhead and profit of a company.

**Omnichannel Marketing** is a multichannel communication approach with the focus on customers' experiences. It orchestrates the customer experience across all channels to ensure a seamless, integrated, and consistent communication.

**Relationship Marketing** is the establishment and maintenance of relationships with targeted customers and other related parties by achieving mutual exchange and fulfilment of promises.

**Transactional Marketing** focuses on targeting customers in making "one-off" or point of sale transactions. It has the purpose of maximising a business's sales efficiency by boosting the volume of individual sales instead of developing an ongoing relationship with the consumer.

**Up-sell** is to get the customer to spend more money to buy a more expensive model of the same type of product or add features or warranties that relate to the product.

## 2.9. Concept Check Quiz

1. Name all possible outcomes of CRM to a company.
2. Name the relationship strategy that could build up relationships with suspects and prospects.
3. Name the relationship strategy that could develop relationships with customers, clients, and advocates.
4. Name the relationship strategy that could gain back the relationships with defectors.
5. Name one type of relational benefits and then give two examples for a shopping mall.
6. Define flexible market offering and give one example to illustrate your answer.
7. Provide one kind of relational benefits for converting prospects into customers.
8. Name the three major components for calculating CLV.
9. Name any two examples of omnichannel marketing.

## 2.10. Concept Challenge Quiz

1. Identify two relevant types of relational benefits with examples, if a customer is situated at the early intermediate relationship level with a facial treatment service provider.

**Hint:** Relational benefits for customers at intermediate relationship level include social, psychological and customisation benefits. Two of them are more relevant to an early intermediate relationship level. Examples have to be related to the characteristics of facial treatment services.

2. Provide suggestions on increasing customer lifetime value (CLV).

**Hint:** Find any relevant marketing strategies to improve the three major factors contributing to the CLV, which include average annual transactions per customers., average profit per transaction, and the average number of years customers remain.

## 2.11. References

1. Sum K. M. (2007). *Market Orientation and the Use of the Internet as a Relationship Marketing Tool in Service Industries* (Doctoral Dissertation). The Hong Kong Polytechnic University, HK.
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## Chapter 3 Omnichannel Marketing

### 3.1. Chapter Objectives

- Explain the trends of multichannel in the CRM context.
- Adopt multichannel communication for omnichannel marketing.

### 3.2. Omnichannel Marketing and CRM

In the CRM context, multichannel is receiving more attention and rapidly developing. Channels have to be managed and coordinated seamlessly to guarantee an effective reach to customers and the attractiveness of products<sup>4</sup>. We label it as “**Omnichannel Marketing**”. Omnichannel Marketing is a multichannel communication approach with the focus on customers’ experiences. It orchestrates the customer experience across all channels so that it is seamless, integrated, and consistent.

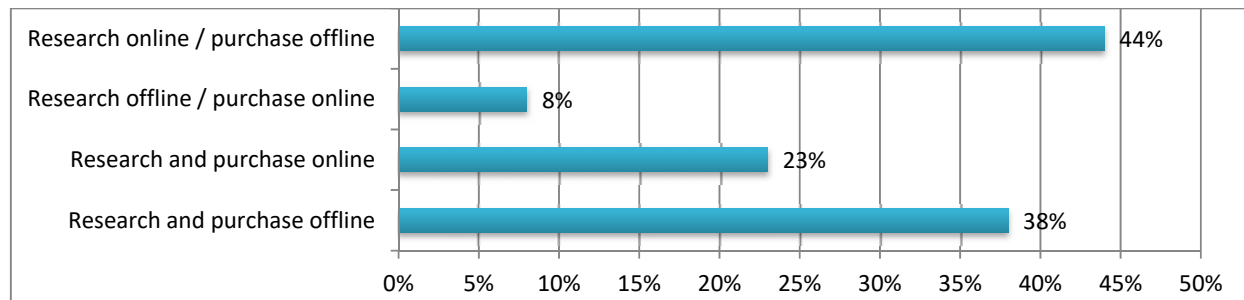
The adoption of multichannel for omnichannel marketing is due to two effects: push effect and pull effect<sup>2</sup>. For the push effect, consumers continuously expand their experiences beyond the traditional channel, and they are more willing to use new channels that can meet their demands. This encourages organisations to comply with their customers’ preferences in order to keep up with competitors. The pull effect is due to the potential improvements of customer loyalty, sales growth and efficiency provided by the multichannel system.

#### 3.2.1. Communication Trends in CRM Context

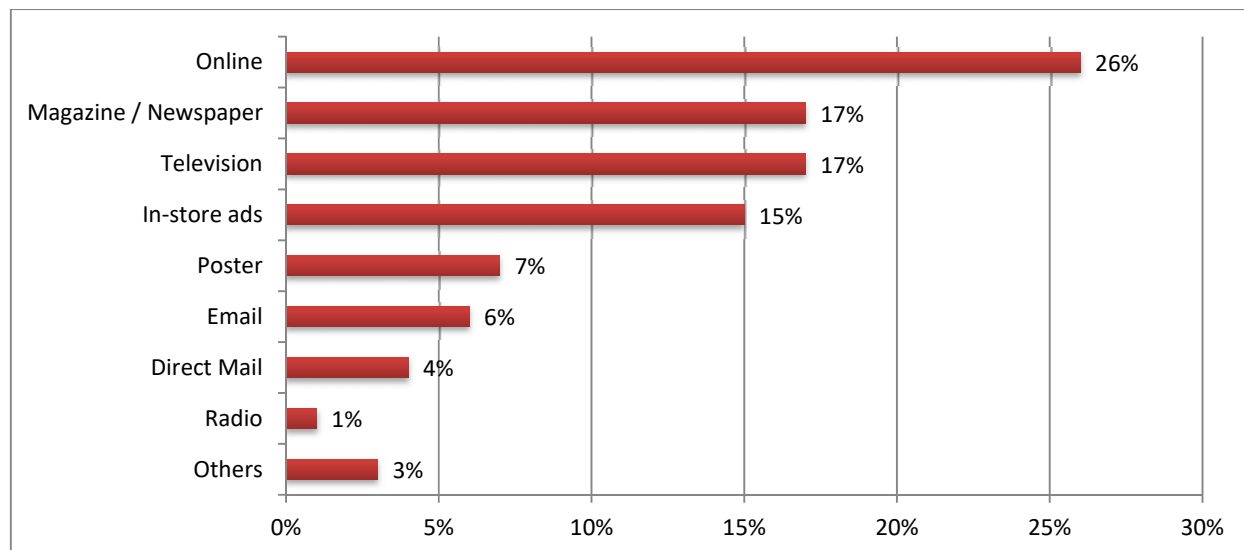
There are two major trends with regard to multichannel in a CRM context. These trends open a vast new range of opportunities for CRM activities. The trends are the increasing of multichannel shoppers and research shoppers<sup>2</sup>:

**Figure 3-1 Communication Trends in CRM Context**

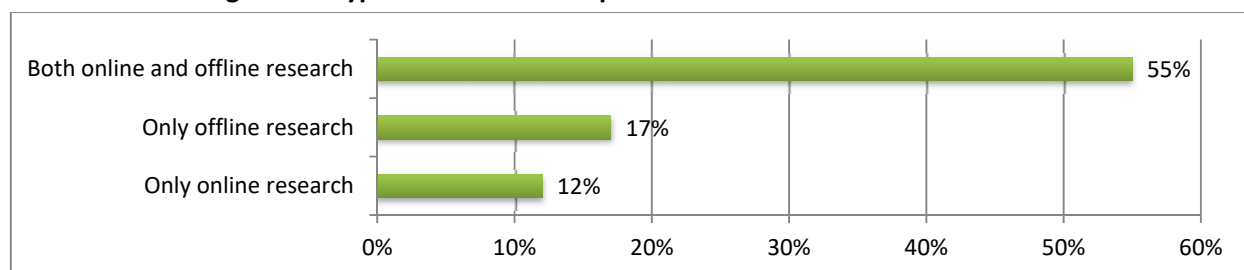
Increasing of Multichannel shoppers	Increasing of Research Shoppers
<ul style="list-style-type: none"> <li>• Multichannel shoppers refer to those who buy in more than one channel within a specific period of time.</li> <li>• They usually shop more frequently and spend more money, around 20% to 30% more on average, than single-channel shoppers. They are very attractive to organisations.</li> <li>• Reason: Consumers tend to choose the most convenient distribution channel depending on the desired product and the time available for purchase.</li> </ul>	<ul style="list-style-type: none"> <li>• Research shoppers are those who research product in one channel, but purchase in another channel across different stages of their buying process.</li> <li>• Around half of the Hong Kong Internet users research product in one channel, but purchase it in another channel across different stages of their buying process (44% + 8%; see Figure 3-2)<sup>5</sup>.</li> <li>• Reason: The proliferation of direct channels attracts more consumers to pick the most convenient channel for purchase or to find information about products.</li> </ul>

**Figure 3-2 Sources of Research and Purchase<sup>5</sup>**

According to the Consumer Barometer Survey 2014/15, online advertising is the information source that Hong Kong Internet users first learned of their purchased product (26%; see Figure 3-4)<sup>6</sup>. The second sources included television (17%) and magazines/newspaper (17%)<sup>6</sup>. The next one was in-store ads (15%)<sup>6</sup>.

**Figure 3-3 The Information Sources that People First Learned of the Purchased Products (Push)<sup>6</sup>**

The survey also found that there were 55% Hong Kong Internet users used both online and offline sources to get initial ideas to reach a final decision for a purchase (see Figure 3-4)<sup>5</sup>.

**Figure 3-4 Types of Research People Do Prior to Their Recent Purchase<sup>5</sup>**

When Hong Kong Internet users wanted to get initial ideas to reach a final purchase decision, in-store information (either brand or retailer) was the offline information source used most (46%) and search engine was the top priority of the online information sources (58%) (see Figure 3-5).

**Figure 3-5 Offline and Online Information Sources for a Purchase <sup>7&8</sup>**

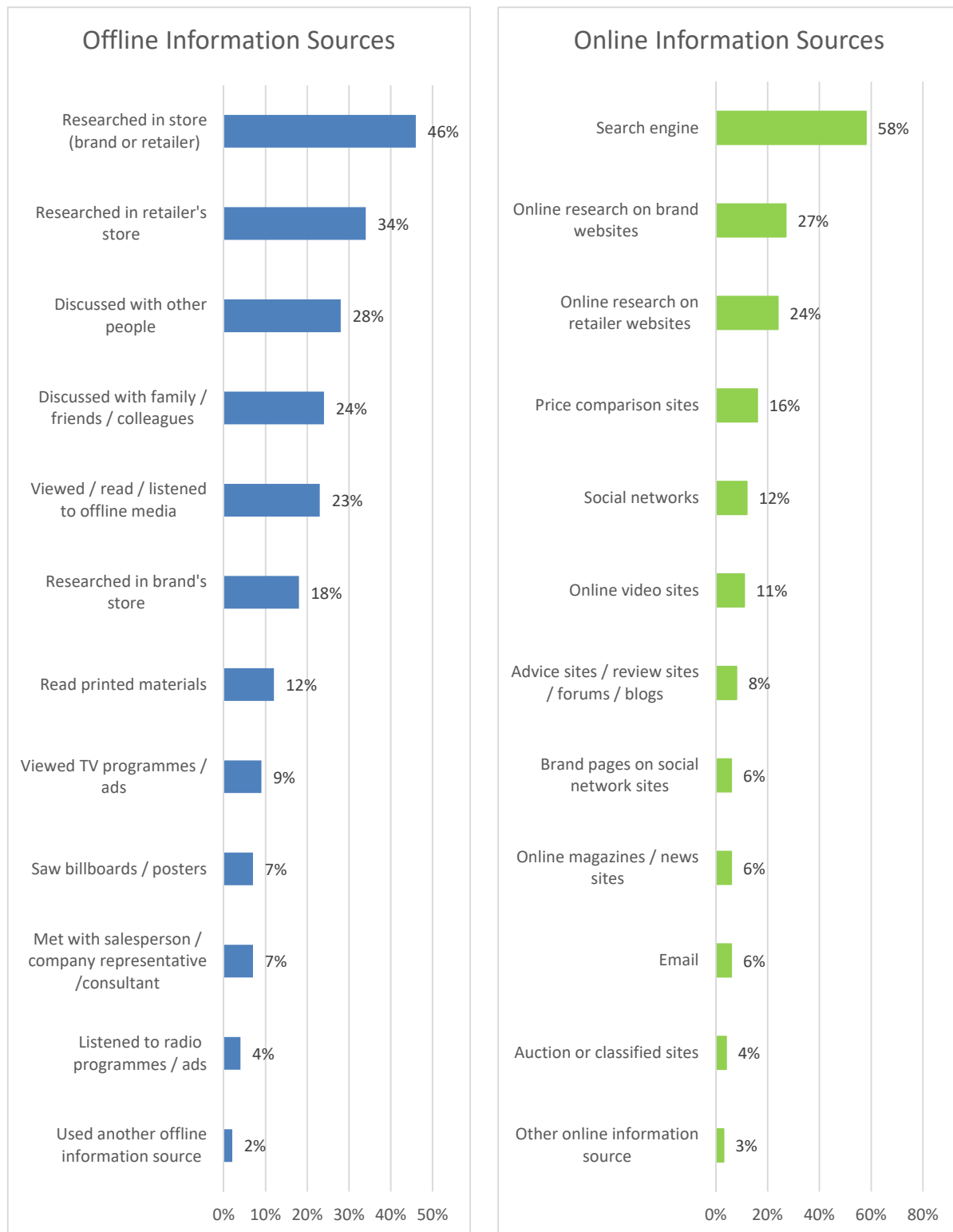


Figure 3-6 Game Corner

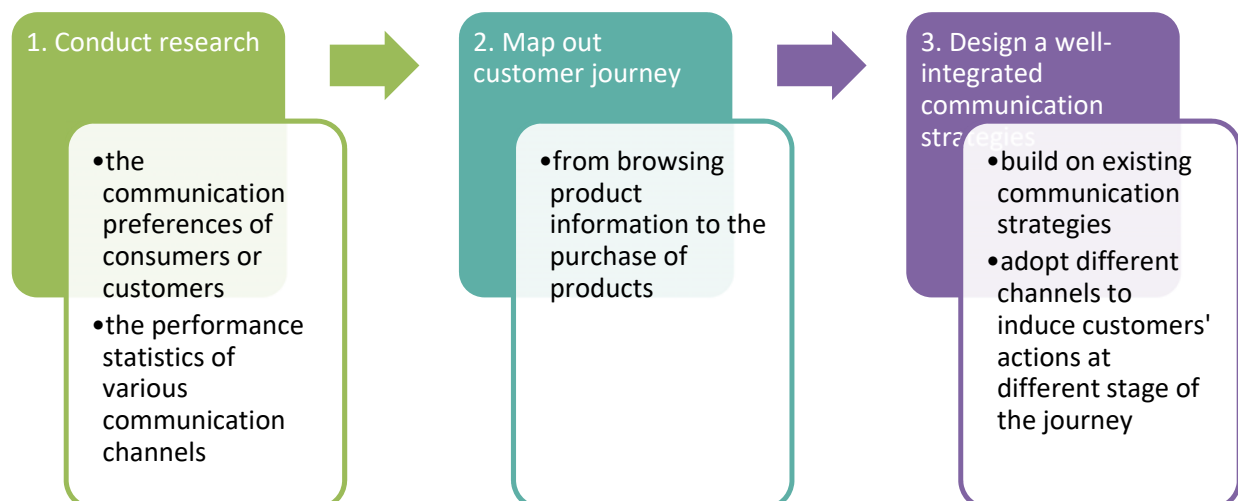
**Instruction: Identify the type(s) of shoppers for the following cases.**

Cases	Types of Shoppers
1. Nick is a 30-year-old teacher working in a secondary school. Recently, he is interested in wireless activity trackers. He started reviewing the products offered by different brands shown on websites, the experiment and test results disclosed in consumer reports, and also consumer comments on different online forums. He, finally, purchased an activity tracker in a retail store. In this case, which type(s) of shopper best describe Nick's situation?	<input type="checkbox"/> Multichannel shoppers <input type="checkbox"/> Research shoppers
2. Amy is a 40-year old accountant. One month ago, she looked for Korean-style casual wear for her leisure activities, and she bought from an online shop. Recently, she needs some new business attire for her work. She is going to shop in a large shopping mall, rather than an online shop this time. Which type(s) of shopper best describe Amy's situation?	<input type="checkbox"/> Multichannel shoppers <input type="checkbox"/> Research shoppers
3. Eddie is an IT officer. He always finds out the information about the latest IT products like smartwatch, smartphone, and tablet from magazines, online forums, shops, and consumer reports. He usually shops at physical stores, but sometimes shops from online shops. Which type(s) of shopper best describe Eddie's situation?	<input type="checkbox"/> Multichannel shoppers <input type="checkbox"/> Research shoppers

### 3.3. Application of Omnichannel Marketing

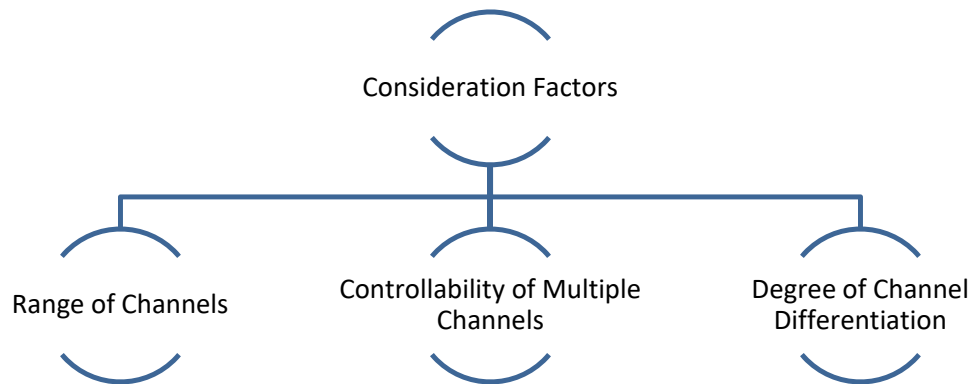
Omnichannel marketing could be applied through three steps. First, marketers have to conduct research on consumers' communication preferences and the performance statistics of various communication channels. These help marketers choose the best combination of the communication channels to reach the customers. Second, the customer journey in browsing product information and purchasing products has to be mapped out. Lastly, marketers have to design a set of well-integrated communication channels that build on existing channel strategies. Different communication channels have to be used to induce customers' actions at different stages of the journey.

Figure 3-7: Steps of Omnichannel Marketing



When planning a well-integrated communication strategy, marketers should consider three communication issues: (i) range of channels, (ii) controllability of multiple channels, and (iii) degree of channel differentiation.

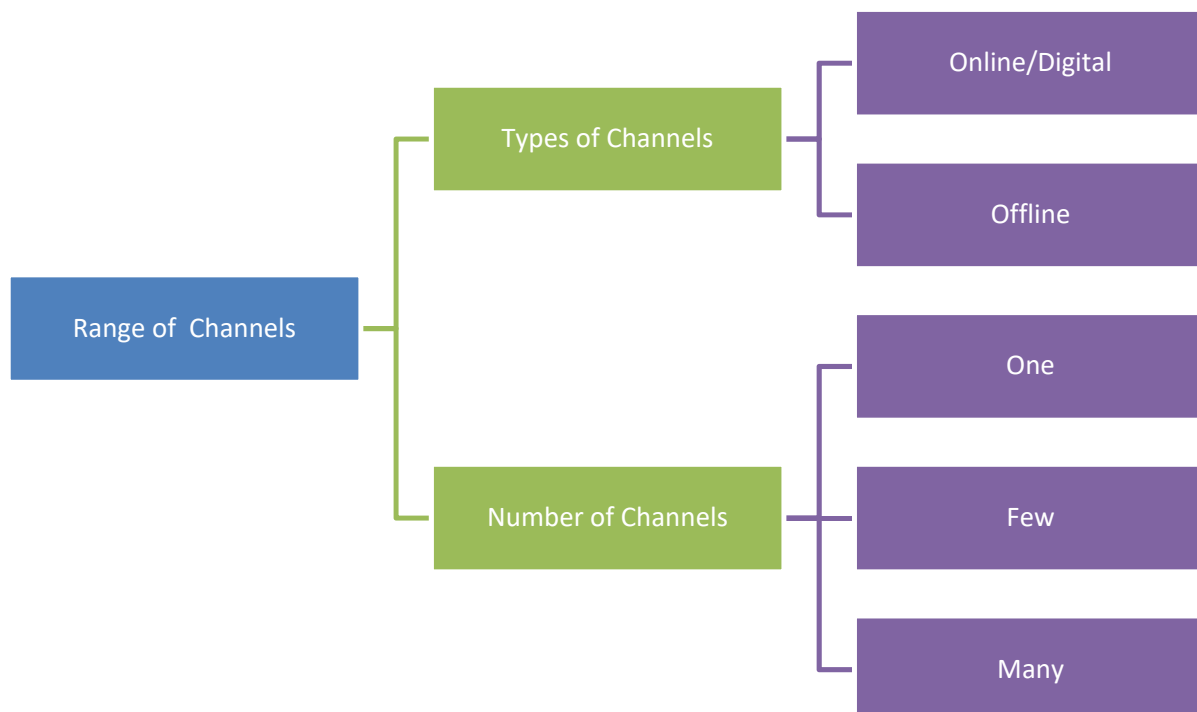
**Figure 3-8 Three Consideration Factors of a Well-integrated Communication Strategy**



### 3.3.1. The range of channels

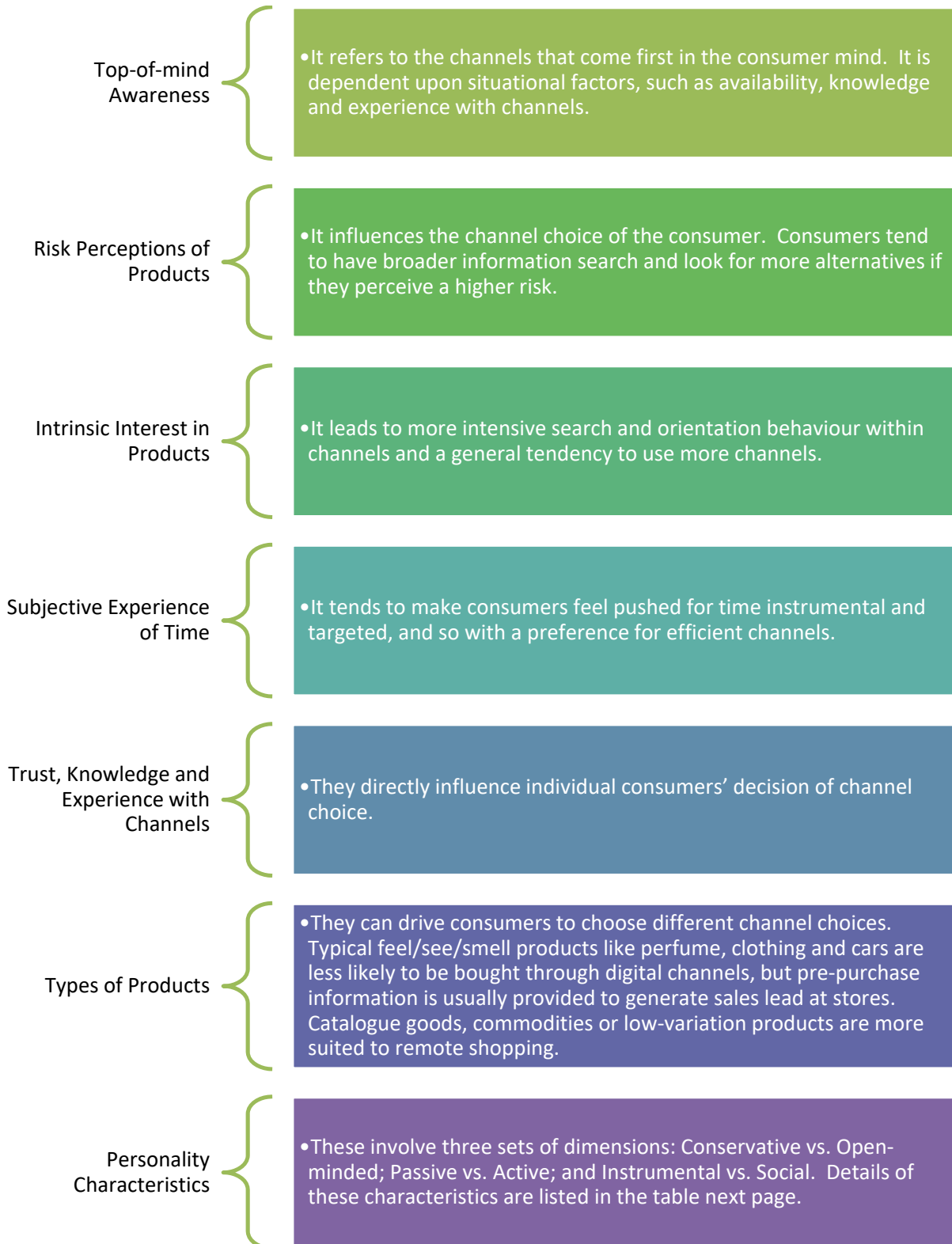
The range of channels includes the types and the number of channels. Consumers usually prefer varieties of channels, which provide wider availability of products and information. However, organisations usually prefer to use a limited variety of channels to balance channel costs and market coverage.

**Figure 3-9 Range of Channels**



About the range of channels, consumer preferences on channel choices are influenced by seven personal factors.

**Figure 3-10 Seven Personal Factors Influencing Consumer Channel Preferences**



The personal characteristics could be categorised into three sets of dimensions: Conservative vs. Open-minded; Passive vs. Active; and Instrumental vs. Social. Consumers with different personality have to be reached by using different communication mix.

**Figure 3-11 Personality Characteristics**

Dimension 1: Conservative vs. Open-minded	
<b>Conservative</b> <ul style="list-style-type: none"> <li>• Focus on security</li> <li>• Value certainty, familiar forms and frameworks</li> <li>• Sceptical about new channels</li> </ul>	<b>Open-minded</b> <ul style="list-style-type: none"> <li>• Eager to experiment</li> <li>• Open to new things</li> <li>• Have more knowledge of media relatively</li> </ul>
Dimension 2: Passive vs. active	
<b>Passive</b> <ul style="list-style-type: none"> <li>• Strong tendency to conform to or value the opinions of others</li> <li>• More likely to trust others</li> <li>• Follow the advice from others</li> </ul>	<b>Active</b> <ul style="list-style-type: none"> <li>• Have a need for control</li> <li>• Prefer to follow their own lead and make their own decision</li> <li>• Reject true advice from others</li> </ul>
Dimension 3: Instrumental vs. social	
<b>Instrumental</b> <ul style="list-style-type: none"> <li>• Efficient and targeted</li> <li>• Individually oriented</li> <li>• Derive certainty or security from objective aspects</li> </ul>	<b>Social</b> <ul style="list-style-type: none"> <li>• Derive energy from contact with others</li> <li>• Prefer human contact</li> <li>• Important to get a good feeling from the interaction</li> </ul>

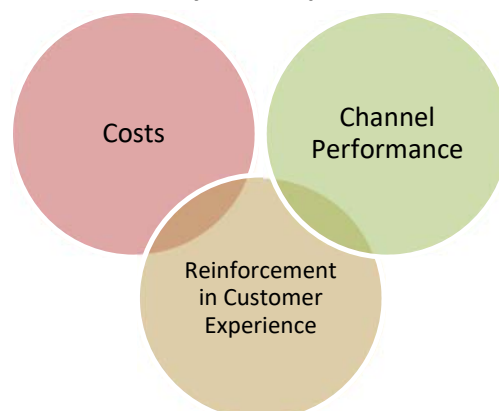


**Figure 3-12 Game Corner*****Instruction: Suggest one effective communication channel for each case.***

Cases	Effective Channel Choice
1. Nick is looking for a wireless activity tracker for his own. He is open to new things, and he is the fans of different brands on the social network. He always searches and compares information on forums before making any purchase. He enjoys human contact.	<input type="checkbox"/> Newspaper Ad <input type="checkbox"/> In-store Ad <input type="checkbox"/> Facebook Ad <input type="checkbox"/> Outdoor Ad <input type="checkbox"/> WOM Marketing
2. Amy is a 40-year old accountant. She is looking for casual wear for her leisure activities. She decides to work around boutiques in shopping malls for her clothes alone. She seldom searches product information before purchase. She enjoys impulse buying. She doesn't prefer to shop with friends or sisters and avoid advice from others, as she enjoys to follow her own lead.	<input type="checkbox"/> Instagram Ad <input type="checkbox"/> Facebook Ad <input type="checkbox"/> Outdoor Ad <input type="checkbox"/> Mobile App <input type="checkbox"/> Personal Selling
3. Eddie plans to visit Korea with her girlfriend. He is looking for sightseeing tickets and transportation services offered by different agencies. He prefers reliable providers, and so he would follow advice from others who have used the services before. He prefers efficient information sources for making his decision.	<input type="checkbox"/> Web Banners on Travel Sites <input type="checkbox"/> YouTube Ad (with product information) <input type="checkbox"/> Search Engine Marketing <input type="checkbox"/> Direct Marketing through General Circulars <input type="checkbox"/> WOM Marketing through Customers

### 3.3.2. The controllability of multiple channels

The use of multiple channels does not guarantee success in enhancing the customer experience. It depends on the ability of organisations to manage various channels in terms of costs, reinforcement in customer experience, and channel performance. It is necessary to limit the range of channels and the degree of differentiation if marketers are unable to manage well the accessibility or the quality of customer experience.

**Figure 3-13 Controllability of Multiple Communication Channels**

### 3.3.3. The degree of channel differentiation

The degree of channel differentiation in serving customers is the second consideration factor. Customers differ in needs, wants and behaviours when interacting with a brand. Marketers usually adopt differentiated channel strategies for different market segments in order to enhance a greater conversion rate. Some customers, however, view differentiation as discrimination. They perceive differentiation as unfair without a valid reason. They see it as another person getting better treatment and offers than they do. They may then discontinue the relationship with the brand. This perception also leads to the reluctance in organisations to apply differentiated channel strategy. This problem could be prevented if customer requirements are clearly identified for setting appropriate differentiation strategies, and justification for the differences are well communicated with all segments<sup>1</sup>.

**Figure 3-14 Examples of Channel Differentiation**

	Gold Membership	Silver Membership	Bronze Membership
<b>Customer Access</b>	24-hours Direct Line Specific Email Address Personal Account on Web	24-hours Hotline General Email Address	12-hours Hotline General Email Address
<b>Communication</b>	Personal Letter or Email Face-to-Face Meeting Specific Account Manager	Personal Letter or Email Branch Meeting Branch Manager	General Letter or Email Branch Meeting
<b>Conditions</b>	>= \$10,001 annual sale	\$5001 - \$10,000 annual sale	\$1000 to \$5000 annual sale

### 3.4. Media Plan

Media plan covers several issues about the communication channels, and generally, we can make use of the 6Ws and 2Hs to design the communication strategies for the media plan.

**Figure 3-15 Contents of Media Plan**

Aspects	Examples of the Contents to be Covered
<b>Who is targeted</b>	Youngsters, higher-income group family, innovators, etc.
<b>What</b>	Descriptive contents of ad, e.g. slogan, messages, URL, branch location, phone number, brand name and/or logo, product name, product image, etc.
<b>When (Day &amp; Time)</b>	14 Feb 2014, 25 Dec 2014, Tue, Wed, 7pm, 8pm, 9pm, etc.
<b>Which</b>	TVB Jade HD, TVB Jade, Cable TV, Apple Daily, am730, etc.
<b>Who is involved in ad</b>	The use of spokesperson or endorsers (Sportsmen, Singers, Pop Stars, Famous Models) like Eason Chan, Andy Lau, BTS, etc.
<b>Where</b>	Location of outdoor ad (HKCC HHB buildings, MTR Central Station), location to distribute samples/coupons (Harbour city), etc.
<b>How many</b>	No. of samples to be distributed, no. of pages of a print ad, no. of exposure times, etc.
<b>How frequent</b>	Once per day, once per week, etc.

### 3.5. Chapter Summary

1. Multichannel shoppers and research shoppers have different characteristics in searching product information and purchasing products.
2. Personality characteristics have three sets of dimensions: conservative vs. open-minded; passive vs. active; and instrumental vs. social.
3. When designing a multichannel strategy for omnichannel marketing, brands have to consider the range of channels, the controllability of multiple channels, and the degree of channel differentiation.
4. Media plan has to integrate various channel media and list out the details like target audience, storyboard, frequency, location, etc.
5. Consumers' preferences on channel choice depend on their top-of-mind awareness, risk perceptions of products, intrinsic interest in products, subjective experience of time, personality characteristics, types of products, as well as trust, knowledge, and experience with channels.

### 3.6. Key Terms

**Channel Differentiation** is the use of distribution channels' coverage, expertise, and performance to achieve competitive advantages.

**Multichannel Shoppers** refer to those who buy in more than one channel within a specific period of time.

**Omnichannel Marketing** is a multichannel communication approach with the focus on customers' experiences. It orchestrates the customer experience across all channels, so that it is seamless, integrated, and consistent.

**Research Shoppers** refer to those who research product in one channel but purchase it in another channel across different stages of their buying process.

### 3.7. Concept Check Quiz

1. Provide any two examples of communication channels.
2. Describe the trends of omnichannel marketing in a CRM context.
3. Identify the three consideration factors of a multichannel strategy .
4. List out the seven factors that influence consumer preference of channel choices.
5. Describe the concept of channel differentiation when designing multichannel communication for omnichannel marketing.
6. Define research shoppers and give one example.
7. Define multichannel shoppers and give one example.
8. Describe the differences between consumers and marketers in communication preferences.
9. State the personality differences between conservative people and open-minded people.
10. State the personality differences between passive consumers and active consumers.
11. State the personality differences between instrumental persons and social persons.

### 3.8. Concept Challenge Quiz

1. Fujifilm wants to introduce its instant still camera “Instax” to college/university students and young adults via retailers. Argue for or against the use of multichannel over the single channel for Fujifilm to develop cost-effective relationships with these two consumer groups.

**Hint:** Answers should consider the characteristics of college/university students and young adults when giving an argument. Both for and against could be discussed first and then conclude your argument for one side.

2. :CHOCOOLATE is one of the brand lines under I.T. It provides everyday wear with superior fit and great looks for individuals. It is tailored for the forward-thinking group that have definite core values and position in life, updated from well-rounded exposure, yet down-to-earth, unpretentious and appreciate the originality and quality in life.

- a. Design a competition campaign for :CHOCOOLATE to recruit more youngsters as its customers.

**Hint:** The design of competition should consider the characteristics of youngsters. The proposal should include a title/theme, rules and regulations, prizes, entry requirements, contact information, and other relevant information.

- b. Design a set of communication strategies with ad samples for :CHOCOOLATE to promote the competition you suggested in Question (a).

**Hint:** The design of communication strategies have to consider the range of channels, degree of differentiation and controllability issues. Also, the contents of the media plan should be clearly described. Tables could be used, and samples of the ad are expected to be included.

### 3.9. References

1. Peelen, E. & Beltman R. (2013). *Customer Relationship Management* (2<sup>nd</sup> ed.). Harlow, England: Pearson.
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5. The Consumer Barometer Survey 2014/15 (n.d.). *Consumer Barometer with Google*. Retrieved July 22, 2016, <https://www.consumerbarometer.com/en/insights/?countryCode=HK>
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7. The Consumer Barometer Survey 2014/15 (n.d.). *Consumer Barometer with Google*. Retrieved July 22, 2016, [https://www.consumerbarometer.com/en/graph-builder/?question=S18&filter=country:hong\\_kong\\_sar](https://www.consumerbarometer.com/en/graph-builder/?question=S18&filter=country:hong_kong_sar)
8. The Consumer Barometer Survey 2014/15 (n.d.). *Consumer Barometer with Google*. Retrieved July 22, 2016, [https://www.consumerbarometer.com/en/graph-builder/?question=S19&filter=country:hong\\_kong\\_sar](https://www.consumerbarometer.com/en/graph-builder/?question=S19&filter=country:hong_kong_sar)

### 4.1. Chapter Objectives

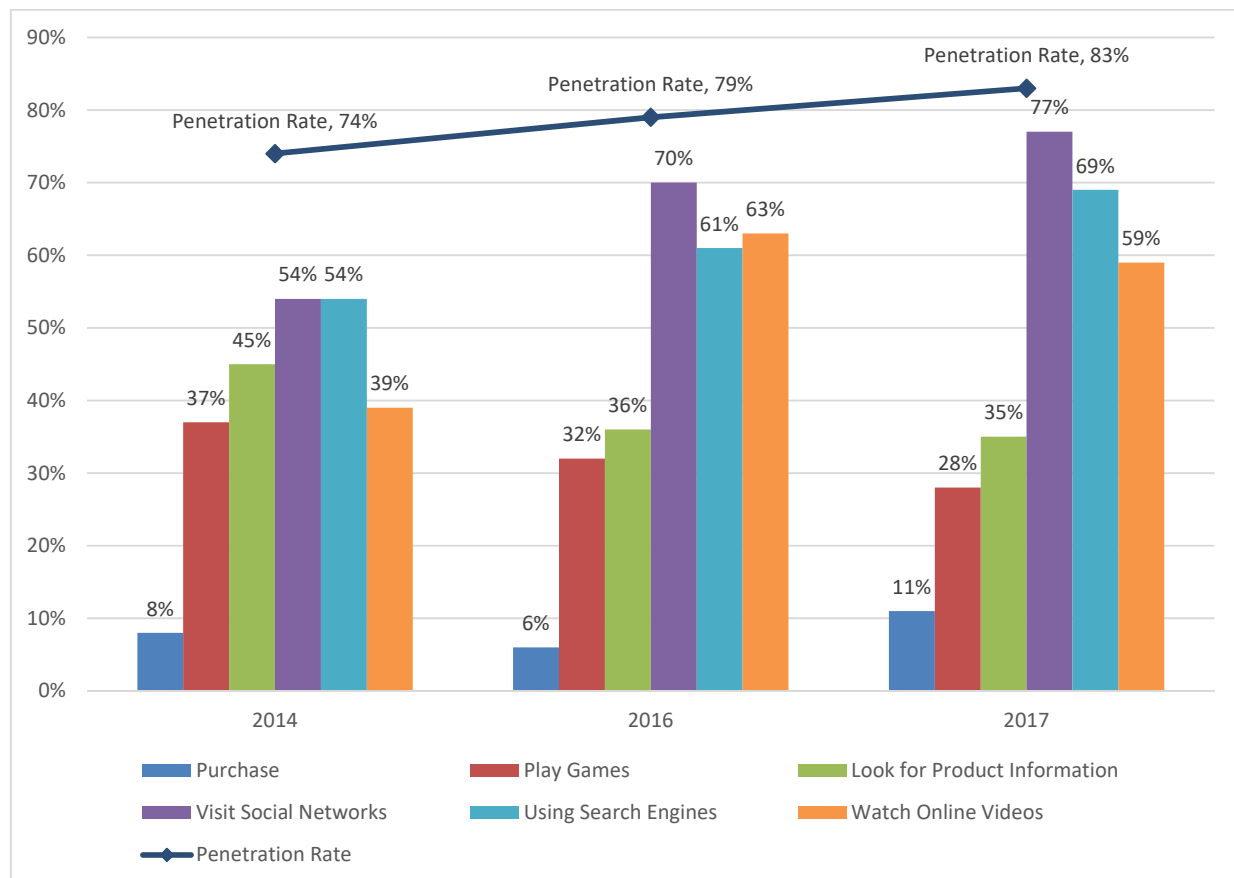
- Review the trend of mobile marketing.
- Adopt different types of mobile marketing for omnichannel marketing.

### 4.2. The trend of Mobile Marketing

Mobile marketing refers to any marketing performed on or with a mobile device, such as mobile phones, smartphones, and tablets. It is different from the traditional communication channel that it is consumer-initiated (by sending messages or request) and requires the express consent of the consumer to receive further communication from the marketers. It reveals the trend of consumer-controlled marketing communications.

Besides, the increasing penetration rate of smartphones fosters the development and deployment of mobile marketing. The penetration rate of the smartphone in Hong Kong keeps increasing from 74% in 2014 to 83% in 2017<sup>6, 13, 20</sup>. People usually visit social networks (77%) and then followed by using the search engine (69%), watching online videos (59%), looking for product information (35%), playing games, and finally making online purchase (11%) in 2017. These activities are people do on smartphones at least weekly<sup>20</sup>.

**Figure 4-1: Penetration Rate of Smartphones in HK and Weekly Smartphone Online Activities**<sup>6, 13, 20</sup>



There are four major trends in mobile marketing. The first one is the use of augmented reality (AR) to create a relevant and unforgettable customer experience, and therefore, enhance consumers' engagement<sup>21,22</sup>. For examples, cosmetics brands can make use of AR-enhanced app to develop a virtual "try-on app". A fashion and apparel brand can incorporate AR displays and sensors in shops and allow shoppers to click through to buy clothes through smartphones instantly. A furniture retailer could make use of AR-enabled app to project virtual furniture and decorations on consumers' smartphones. It helps consumers decide whether the furniture fits within their space before purchase. Marketers can make use of AR to improve consumers' shopping experiences and ease their shopping process.

The second trend of mobile marketing is the use of artificial intelligence (AI) to track customer journey<sup>21,22, 23, 24, 25</sup>. AI can be applied in mobile marketing through leveraging customer data and big data to analyse consumer's search patterns, identify their journey, anticipate their next move, and then offered targeted product information. With the use of advanced machine learning algorithms and big data, marketers can effectively target consumers and provide a relevant offer. It, then, helps improve the conversion rate. Predictive advertising could then be applied in mobile marketing.

**Figure 4-2 Four Major Trends of Mobile Marketing in 2019**<sup>21, 22, 23, 24, 25, 26</sup>



The third trend is the use of video in mobile marketing<sup>21, 24, 25</sup>. Watching online videos is a common smartphone activity among consumers. Consumers also prefer to see more visual and interactive contents from brands. Videos could be used by marketers to tell a brand story and immerse viewers in the communication messages. Marketers should reserve budget in video advertising and integrate video into their communication and mobile marketing strategies to engage consumers.

The fourth trend of mobile marketing is the use of chatbots or virtual assistant to communicate with the consumers<sup>23, 25, 26</sup>. Chatbots or virtual assistants are computer programs designed to communicate with consumers. Marketers can utilise them to stimulate conversation with consumers, solve their problems online, provide product recommendations, and help consumers locate product or company information. Chatbots could also be used to show the brand's personality and image. They should be well-integrated into communication or mobile marketing strategies to communicate with consumers effectively and efficiently.






Examples of mobile marketing include the use of QR Codes, text message marketing, location-based marketing and mobile applications. They are not stand-alone mobile marketing technology. They are supplementary to each other and could be used simultaneously. The forthcoming sessions will cover the features and application of these mobile marketing channels or strategies.

### 4.3. QR Codes

#### 4.3.1. Background of QR Codes

QR Code stands for Quick Response Code. It is a two-dimensional code with high-speed reading used to replace barcodes, which are only capable of storing approximately 20 digits. It was invented by Denso Wave Incorporated to improve the management work efficiency and was released to the market in 1994<sup>1</sup>. Since its introduction, there are different versions developed to meet different business purposes. Also, there are varieties of uses in marketing and CRM.

**Figure 4-3 Types of QR Codes<sup>1</sup>**

Types of Codes	Explanation	Sample
<b>QR Code Model 1 and Model 2</b>	Model 1 is the original QR Code. Model 2 is an improvement on Model 1, which is capable of storing up to 7089 numerals.	
<b>Micro QR Code</b>	Only one orientation detecting pattern is required for this code, making it possible to print in a smaller space. It can store up to 35 numerals.	
<b>iQR Code</b>	This one can be generated with either square modules or rectangular ones. It can be printed as a turned-over code, black-and-white inversion code or dot pattern code. It can store about 40000 numerals.	
<b>SQRC</b>	This code has a reading restricting function. It can be used to store private information or manage the company's internal information.	
<b>LogoQ</b>	It can incorporate high-levels of design features such as illustrations, letters, and logos.	

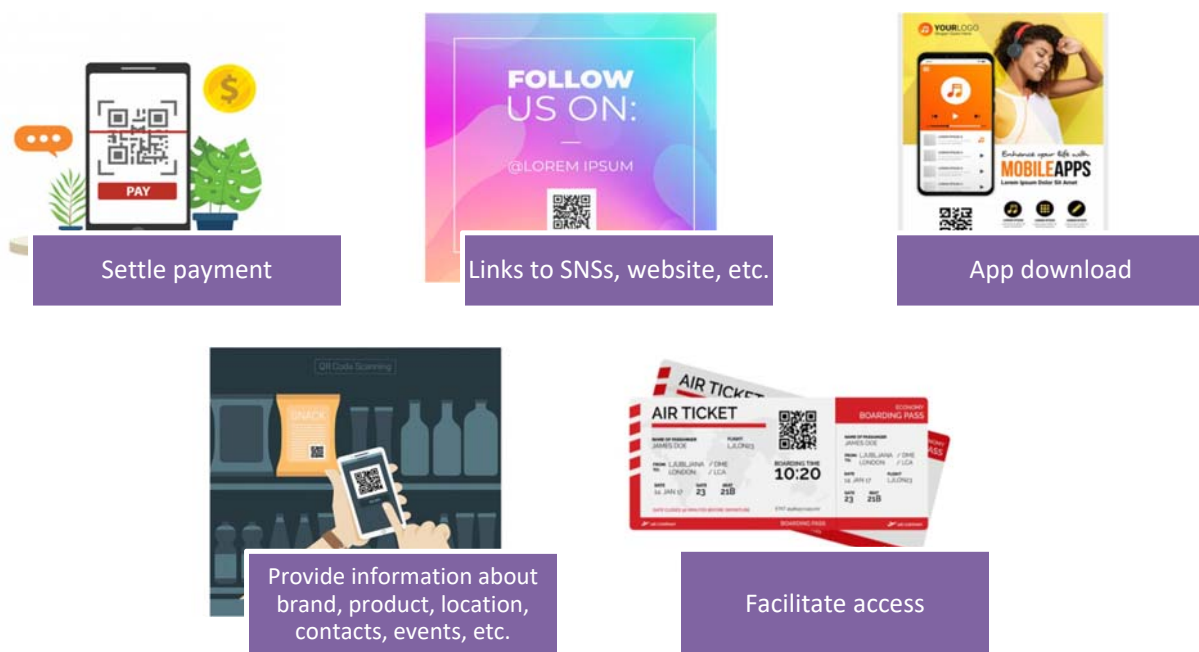
### 4.3.2. Application of QR Codes in Marketing

QR codes can be applied in marketing to facilitate different marketing actions. QR Code could be used for settling payment for products or services, for instances, WeChat Pay and O! ePay offered by Octopus Hong Kong. This helps ease the payment procedure and improve customers' purchase experiences.

Another application is to divert consumers to brands' social networking site accounts, like Facebook, Instagram, Twitter, YouTube, etc. The QR codes could be printed on any print advertisement (newspaper, magazine, leaflet, brochure, etc.), outdoor billboards, package outer, shopping bag, etc. The codes could also be provided online to divert consumers from desktop computers to mobile devices, or to facilitate the sharing function from one consumer to another.

The third application of QR code is to trigger mobile app download. QR codes could also be printed on any promotional materials to induce consumers to download brands' mobile app. It helps consumers locate the sources or URL link of the app download without looking for that on their own. This would help convert customers from one relationship state to another along the customer journey.

**Figure 4-4 The use of QR Codes**

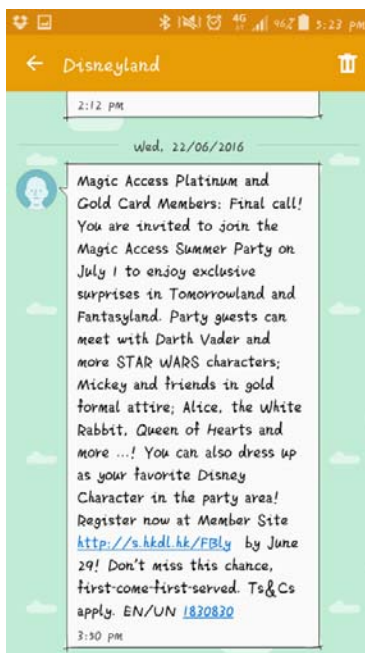


The next application of QR codes could be used for sending messages to consumers. This would be helpful if marketers want to provide information to consumers from one means to another. The information could be related to the brand, store locations, contacts, a product, a service, a marketing campaign, or an event. The messages could also be designed in different forms, such as text, visual, video, or a combination of the above. This allows a diversified communication experience with consumers.

## 4.4. Text Message Marketing

Text message marketing can be classified into two categories: (1) through carriers, e.g. Short Message Service (SMS) or Multimedia Messaging Service (MMS) and (2) without carriers like iMessage, LINE, Whatsapp, WeChat, Facebook Messenger, Twitter Direct Messaging, Instagram Direct, etc<sup>2</sup>. The second category is labelled as “over-the-top messaging”. There are 14 best practices for marketers to do text message marketing<sup>2, 15</sup>:

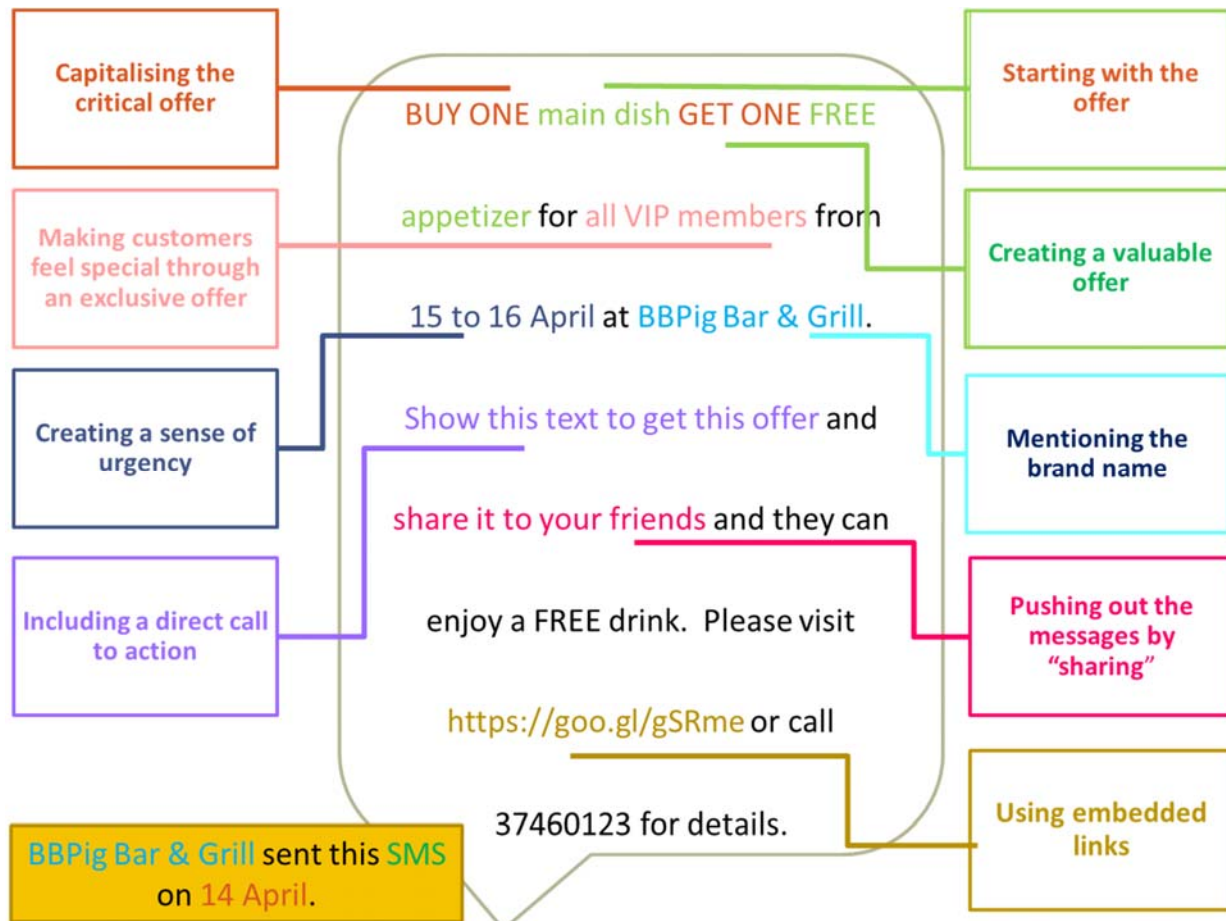
1. **Don't go crazy with abbreviations:** Avoid using abbreviations (e.g. “w/” instead of “with”, “UR” instead of “you are”), as it makes a brand less professional.
2. **Using embedded links:** Use URL shorteners to replace lengthy website link in text messages. It can avoid wasting the number of characters. Examples include Cuttly, Tiny URL, Bitly and Google URL Shortener.
3. **Creating a valuable offer:** Put yourself in the shoes of your subscribers with a powerful message that incorporates “benefits”, e.g. coupons, promotional offers. A meaningless message can turn potential customers off.
4. **Mentioning the brand name:** It ensures the receivers know who sent out the text and where they can redeem or get the offer.



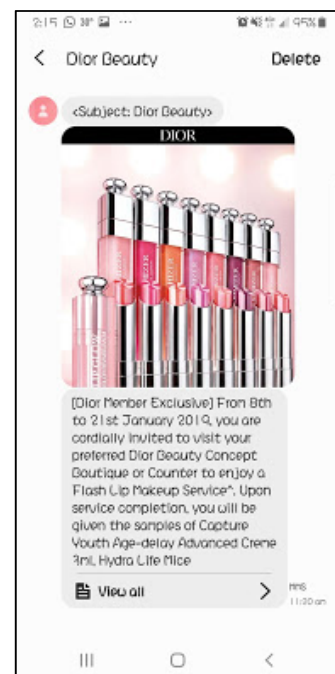
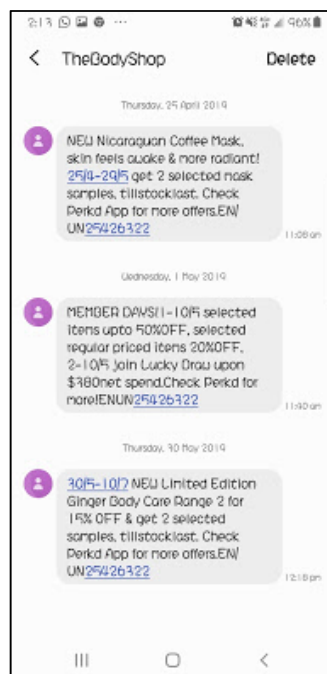
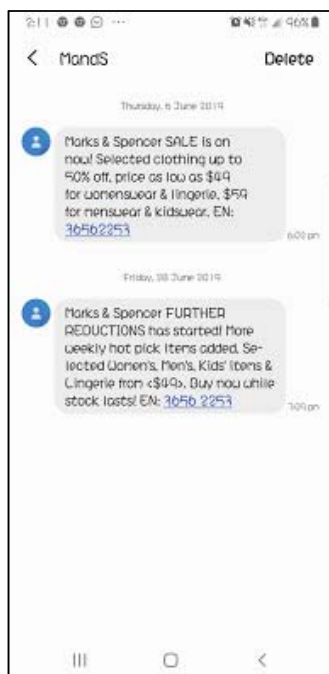
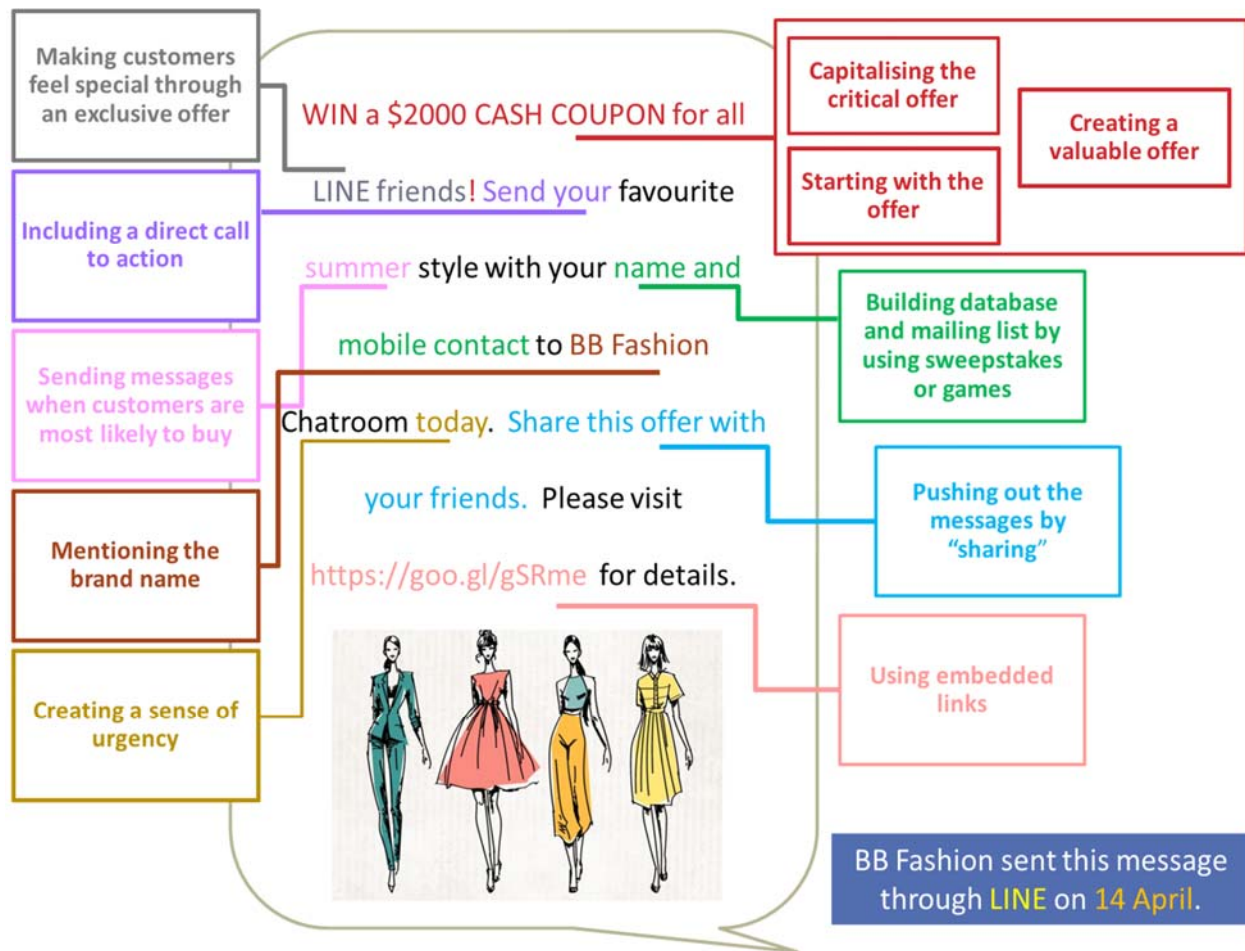
5. **Capitalising the critical offer:** can draw and keep customers' attention, e.g. “BUY ONE, GET ONE FREE”.
6. **Starting with the offer:** Text messages are meant to be short and to the point. It is important to state the offer first to capture receivers' attention. Avoid extra verbiage in the message.
7. **Making customers feel special through an exclusive offer:** Messages should make opted-in customers feel special and important. An offer appealing to anyone is not attractive and difficult to inspire action.
8. **Creating a sense of urgency:** Including some sort of expiration helps encourage the receivers to take action in a timely manner, which helps achieve the expected results/outcomes as quickly as possible.
9. **Including a direct call to action:** A call to action is simply a request or an instruction, which reminds receivers what the next move is. It gives them the direction and is a push to get them going to the next stage.

10. **Pushing out the messages by “sharing” function:** Encourage customers to do viral marketing for your brand, e.g. via social media.
11. **Building a database and mailing list by using sweepstakes or games:** Sweepstakes or games with attractive and important prizes to consumers are the best way to get them to sign up for brand's further information voluntarily. It is a good way to build a consumer database or a mailing list for identifying prospects and developing relationships.
12. **Don't feel compelled to fill all the characters:** Customers usually dislike reading long messages. Keep the message short and sweet to generate customer attention.
13. **Avoid using two-word keywords:** When choosing keywords for the text message campaign, it is better to keep the keywords to one word rather than using two words. It is found that there are around 11% of consumers put the space between the two words when searching the information on the Internet.
14. **Sending messages when customers are most likely to buy:** A good practice of text message marketing is to send messages to customers regularly if they are passionate about brands' products or services. However, it would be more powerful to send messages when customers are going to buy or consume the products.

**Message Example of a Restaurant**



### Message Example of a Fashion and Apparel Brand



## 4.5. Location-based Marketing

Location-based marketing is a new form of communication strategies. It integrates mobile advertising with location-based technology. It can facilitate communication with potential customers, generate a sales lead, and drive local consumption. Near Field Communication (NFC), Beacons, and Geofencing are typical examples.

**Figure 4-5 Features of NFC, Beacons, and Geofencing** <sup>10, 11, 16, 17, 18, 19</sup>

	NFC	Beacon	Geofencing
<b>Description</b>	<ul style="list-style-type: none"> <li>Trigger an action through the use of NFC tags to communicate with NFC-enabled smart devices wirelessly</li> </ul>	<ul style="list-style-type: none"> <li>Broadcast BLE signals that can trigger certain actions in a beacon-enabled app on a mobile device</li> </ul>	<ul style="list-style-type: none"> <li>Trigger action to users who are located by GPS in a predefined geographical boundary</li> </ul>
<b>Technologies involved</b>	<ul style="list-style-type: none"> <li>Passive Ultra-High-Frequency Radio Frequency Identification (UHF RFID) chips</li> </ul>	<ul style="list-style-type: none"> <li>Bluetooth Low Energy (BLE), also known as Bluetooth 4.0</li> </ul>	<ul style="list-style-type: none"> <li>Global Positioning System (GPS)</li> </ul>
<b>Range</b>	<ul style="list-style-type: none"> <li>10cm or less</li> </ul>	<ul style="list-style-type: none"> <li>1m to 70m</li> </ul>	<ul style="list-style-type: none"> <li>50m or greater (unlimited)</li> </ul>
<b>Boundary</b>	<ul style="list-style-type: none"> <li>Indoor</li> </ul>	<ul style="list-style-type: none"> <li>Indoor</li> </ul>	<ul style="list-style-type: none"> <li>Outdoor</li> </ul>
<b>Accuracy</b>	<ul style="list-style-type: none"> <li>Very high (but near range only)</li> </ul>	<ul style="list-style-type: none"> <li>High</li> </ul>	<ul style="list-style-type: none"> <li>Low</li> </ul>
<b>Accessibility among iOS, Android, and Windows Platforms</b>	<ul style="list-style-type: none"> <li>Medium</li> <li>Limited to NFC-enabled smart devices (with an inherent NFC chip)</li> </ul>	<ul style="list-style-type: none"> <li>High</li> <li>Limited to BLE-installed smart devices</li> </ul>	<ul style="list-style-type: none"> <li>Very High</li> <li>An inherent capability of all smartphones</li> </ul>
<b>Reach in terms of the Technologies Involved</b>	<ul style="list-style-type: none"> <li>Action required by users/consumers</li> </ul>	<ul style="list-style-type: none"> <li>40%, if Bluetooth activated</li> </ul>	<ul style="list-style-type: none"> <li>90%, if GPS activated</li> </ul>
<b>Data Privacy and Security</b>	<ul style="list-style-type: none"> <li>Medium to High</li> </ul>	<ul style="list-style-type: none"> <li>Medium</li> </ul>	<ul style="list-style-type: none"> <li>Medium</li> </ul>
<b>Best For</b>	<ul style="list-style-type: none"> <li>Micro-location</li> <li>One-to-one action</li> </ul>	<ul style="list-style-type: none"> <li>Micro-location</li> <li>One-to-many</li> <li>Indoor tracking and monitoring, but unable to identify user location through map</li> </ul>	<ul style="list-style-type: none"> <li>Macro-location</li> <li>One-to-many</li> <li>Outdoor tracking and navigation, e.g. the time and location of arrival, departure, and dwell</li> </ul>
<b>Sending Push/Alerts</b>	<ul style="list-style-type: none"> <li>Weak</li> </ul>	<ul style="list-style-type: none"> <li>Medium to High</li> </ul>	<ul style="list-style-type: none"> <li>High</li> </ul>

Location-based technologies allow marketers to provide right-time and personalised services and experiences to consumers, which are good for developing and maintaining relationships with consumers and customers at different relationship stages.

**Figure 4-6 Application of NFC, Beacons, and Geofencing**<sup>10, 11, 16, 17, 18, 19</sup>

	NFC	Beacon	Geofencing
<b>Application</b>	<ul style="list-style-type: none"> <li>Secured payment</li> <li>Collecting loyalty/membership points</li> <li>Getting promotional offers</li> <li>Facilitating physical access or ticketing</li> <li>Check-in</li> <li>Delivering information, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Sending push/alerts, e.g. messages or offers</li> <li>Automatic check-in</li> <li>Contactless payment, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Customer initiated check-in</li> <li>Sending push/alerts, e.g. messages or offers, etc.</li> </ul>

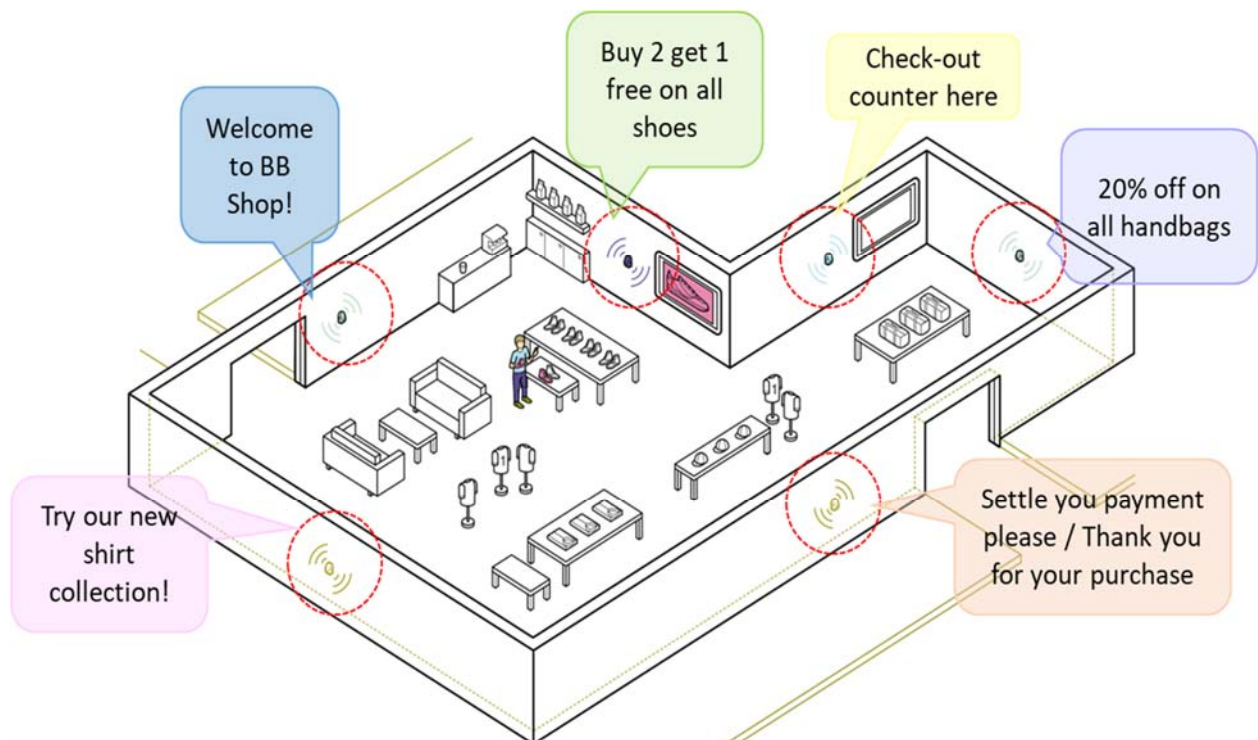
**Figure 4-7 NFC Technology and Application**



Figure 4-8 Setting of Beacons in a mall

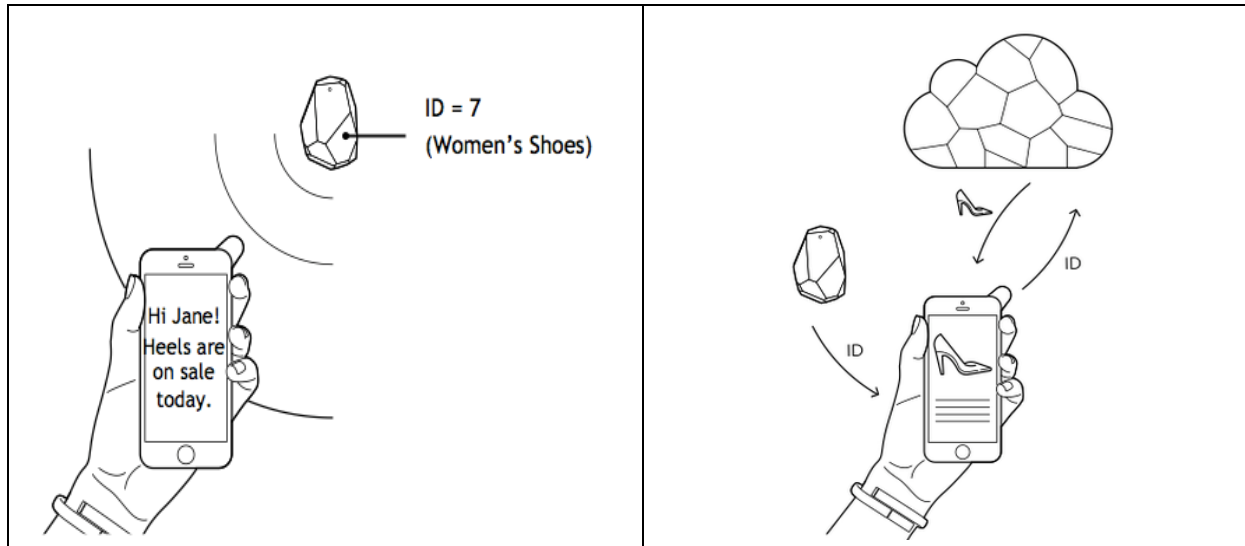


Figure 4-9 Setting of Beacons in a shop



Picture credit: estimate.com (edited by author)

Figure 4-10 How does beacon work?

**Customer:**

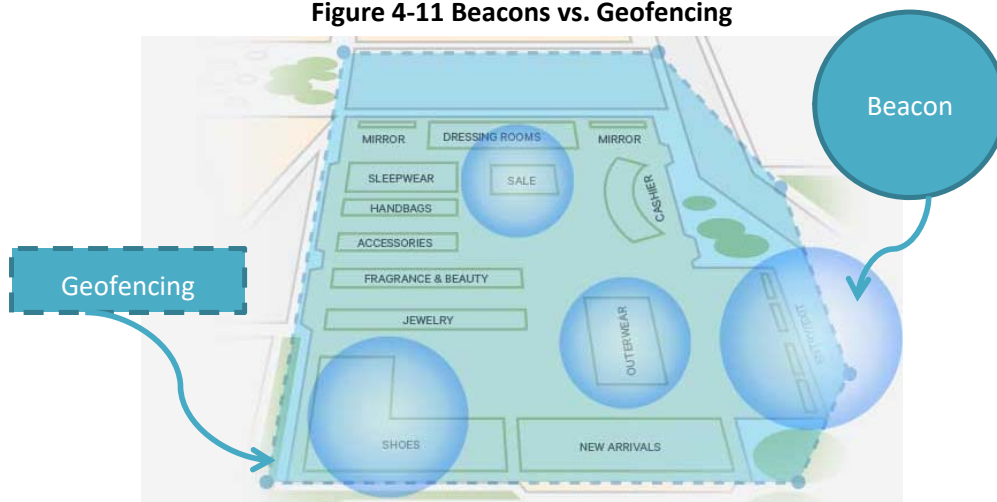
When Jane enters the shoe shop, she receives a welcome message immediately (provided that the Bluetooth of Jane's smartphone is on).

**BACKSTAGE<sup>16</sup>:**

1. Beacon constantly emits UUID (Universally Unique Identifier) within a programmable range (1m to 70m).
2. When Bluetooth is enabled on a customer's device, their app or pass 'sniffs' for beacons close by.
3. If there is a match between the beacon's UUID and one of the UUIDs stored in the app or Passbook pass, a relevant lock screen message appears on the device.
4. The customer can conveniently swipe the lock screen message and access the location relevant pass, and take real-world action.

*Pictures credit: estimote.com*

Figure 4-11 Beacons vs. Geofencing

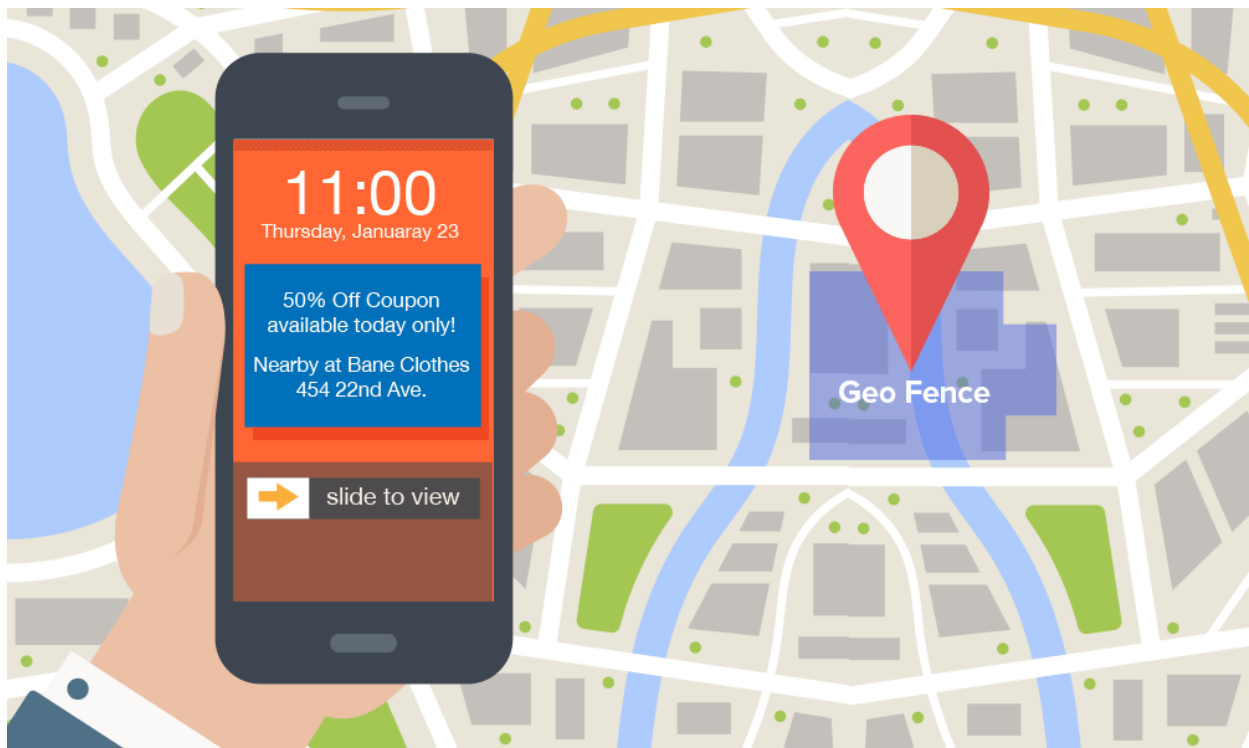


*Picture credit: gimbal.com*

Figure 4-12 How does Geofence works?



Figure 4-13 Application of Geofencing



Picture credit: propellant.media

**Figure 4-14 Game Corner****Instruction: Suggest the best mobile marketing device for the following cases.**

Options: QR Code, NFC, Beacon, and Geofencing

Cases	
1. Sending a text message to invite consumers who are <u>around 80 meters outside</u> a department store to invite them the latest offers and encourage them to visit.	
2. Sending a promotional message about fashion and clothing of a department store to customers who walk past <u>the fashion and clothing section within 50 meters</u> .	
3. Diverting customers from an outdoor ad to an official web site for more promotional information. The targeted consumers are those using smartphones <u>without NFC function</u> .	
4. Allowing customers to access <u>at the gate</u> for a movie efficiently.	
5. A supermarket decides to adopt a new payment system, which allows customers to <u>pay anywhere</u> before leaving the store.	
6. A skincare brand wants to <u>store customer loyalty points</u> into its specific mobile app installed on customers' smart devices.	
7. A department store wants to find out which <u>specific entrance(s)</u> do its customers enter and exit the store, and also <u>where and when</u> do they visit the sections (e.g. menswear, toys and games, supermarket, babies, womenswear, watch and jewellery, etc.) in the store.	
8. A shopping mall wants to identify the date and time its opted-in members drop by the mall, and also their shopping routes and exit time. When members pass by a large performance stage on the 1 <sup>st</sup> floor with, they will receive a message about the coming-up events in around 1 to 2 hours. If female members walk by the womenswear on the 2 <sup>nd</sup> floor, they will receive a one-time coupon which lasts for three hours on the same shopping day. If members made any purchases, they could record their loyalty points easily through a detector next to the check-out counters provided in each store.	

## 4.6. Mobile Application

Mobile Application (Mobile App) is an application software designed to run on smartphones, tablets, and other mobile devices. The top three categories of apps download in Q6 2018 on the App Store were games, photo/video, and entertainment, while the top three downloads on Google Play were games, tools, and entertainment<sup>14</sup>. The top five most used mobile app categories were games, business, education, lifestyle, and entertainment<sup>4</sup>. Hong Kong smartphone users spent more than on mobile app (92%) then mobile web (8%)<sup>4</sup>. There are some tips for designing a successful mobile app<sup>9,12</sup>.

### 1. Ensure front-end usability and back-end programming to enhance users' using experiences

The app has to deliver what users want and could be navigated easily on any platforms. Also, a set of coding and programmes have to be well developed to support the app's front end, i.e. user interface.

### 2. Set up a group of beta users to test the apps and give feedback before launch

Brands should invite a group of beta users to test a newly developed or updated version of the app. Beta users usually can catch bugs or offer tweaks before an app is distributed and subject to a consumer backlash. The rating of the app may change by huge amounts for small changes in it.

### 3. Do not mimic the design and service on desktop or laptop

Other than providing the contents, features and information customers are looking for; simplicity is the key to success that can save customers time, keep them happy, and keep them engage in using the app. Apps shouldn't try to do everything the brand's website does.

### 4. Collect useful customer data for CRM

Marketers have to keep collecting customer data, e.g. behaviour patterns of using the app, needs and requirements; and then use the customer knowledge to offer customised promotional information and offers, fine-tune services and functions of the app, etc.

### 5. Coordinate mobile apps with other multichannel platforms for mobile engagement

Brands have to develop an integrated mobile contact centre in the app that offers customer service support and help for customers without leaving the app to call agent and repeat identifying and verifying their personal and account information. Brands may consider offering a real-time chat window or phone call that connect app users directly to agents who are already aware of customers' information and what they are trying to accomplish.

### 6. Keep in mind the main objectives

Brands should ensure its app can satisfy customers and encourage mobile engagement. They have to properly provide irresistible offers and deals, useful location-based information, sharing function on social networks, and a feedback and rating feedback system to customers, but keep in mind that "less is more" is the key to success.

### 7. Refine marketing strategy.

Enlist a team in creating, planning, and managing the app, offering online services on the app, as well as collecting and analysing user data. Adopt metrics for improving app performance.

## 4.7. Chapter Summary

1. Mobile marketing is a kind of consumer-initiated communication channels that emerges in the market. Mobile marketing is not a stand-alone communication strategy, and it is compatible with other existing communication channels. Marketers have to make use of mobile marketing to collect customer data for CRM.
2. QR Codes are capable of handling more information than traditional barcodes (approximately 20 digits).
3. Text message marketing involves the use of SMS, MMS, and over-the-top messaging.
4. Location-based marketing is a kind of communication strategies based on the location of consumers. Messages could be tailor-made to customers in different (macro- or micro-) areas. Examples include NFC, geofencing, and beacons. They could be used simultaneously in a marketing campaign.
5. Mobile applications should maintain sufficient irresistible offers, useful function and important information to encourage more engagement from consumers.

## 4.8. Key Terms

**Location-based Marketing** is a new form of communication strategies. It integrates mobile advertising with location-based services. It can drive local consumption.

**Mobile Application** (Mobile App) is application software designed to run on smartphones, tablet computers and other mobile devices.

**Mobile Marketing** is any marketing performed on or with a mobile device, such as mobile phone, smartphone and tablet.

**Predictive Advertising** is the marketing application of predictive analysis, which involves the use of big data, artificial intelligence, and machine learning algorithms to predictive future action and behaviours.

**Over-the-top Messaging** refers to the delivery of information over the Internet without a multiple-system operator.

**QR Code** stands for Quick Response Code. It is a two-dimensional code with high-speed reading used to replace barcodes.

**Text Message Marketing** is to send messages to customers with or without the carrier channels.

## 4.9. Concept Check Quiz

1. Define mobile marketing.
2. Give some examples of mobile marketing technologies.
3. Define QR codes and explain any two types of QR codes.
4. Explain any five considerations of text message marketing.
5. Explain the possible use of geofencing for a check-in marketing campaign.
6. Define NFC and give any five examples of its uses in marketing.
7. Utilise an example to describe the differences between geofencing and beacons.
8. Compare the differences among NFC, beacon, and geofencing in doing marketing.
9. Define mobile application.
10. Explain any six successful features of the mobile application.

## 4.10. Concept Challenge Quiz

1. IKEA stores in Hong Kong are considering using some mobile marketing technologies in its business. Discuss the possible uses of QR codes and NFC in its business.

**Hint:** Answers can address the use of QR codes and NFC, respectively, and the combination uses of these two technologies. Examples could cover front office (service to customers) and back office (internal operation).

2. HK Disneyland is deciding to use location-based marketing to serve its visitors better. Discuss the possible use of these technologies in the park.

**Hint:** Answers are expected to fully utilise all kinds of location-based marketing in the park and no overlaps (but well-integrated) among these technologies in serving visitors. The answers should mainly focus on customer aspects.

## 4.11. Bonus References: Six Major Features of QR Codes

### 1. High capacity encoding of data

QR Codes are capable of handling several dozen to several hundred times more information than traditional barcodes (approximately 20 digits). Up to 7089 characters can be encoded in one code.

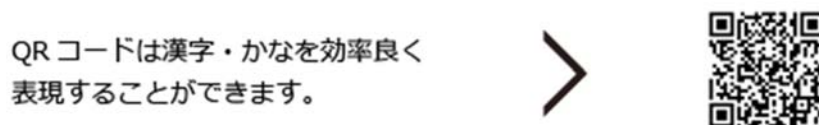
### 2. Small printout size

QR Code carries information both horizontally and vertically that made it a smaller printout size than barcodes.



### 3. Kanji and Kana capability

QR Codes are capable of handling different types of data, including numeric, alphabetic characters, Kanji, Kana, Hiragana, symbols, binary and control codes.



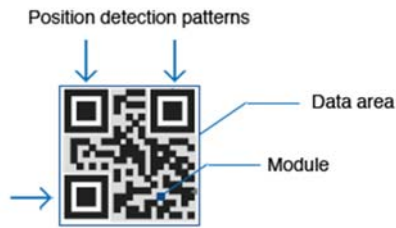
### 4. Dirt and damage resistant

It has error correction capability. Data can be stored even if the symbol is partially dirty or damaged. A maximum of 30% codewords can be restored, but depending on the amount of dirt or damage. (Codeword is a unit that constructs the data area. One codeword is equal to 8 bits in the case of QR Code).



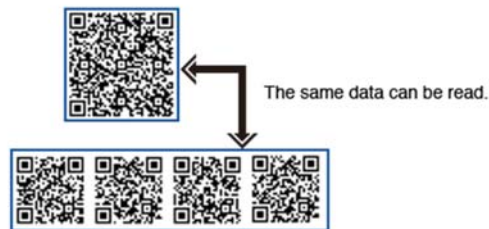
### 5. Readable from any direction in 360°

QR Codes could be read from any direction in 360 degree. It accomplishes this task through position detection patterns located at the three corners of the symbol. The position detection patterns guarantee stable high-speed reading, avoiding the negative effects of background interference.



### 6. Structured appending feature

QR Codes could be divided into multiple data areas. Conversely, information stored in multiple QR Code symbols can be reconstructed as a single data symbol. One data symbol can be divided into up to 16 symbols, allowing printing in a narrow area.



Pictures credit: qrcode.com

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## Chapter 5 Social Media and Content Marketing

### 5.1. Chapter Objectives

- Get familiar with various types of social media technologies.
- Identify opportunities, challenges and risks of using social media in CRM.
- Recognise the tips for creating great social media contents.
- Understand the importance of content marketing to CRM.

### 5.2. Background Information on Social Media

Social media is a wide range of Internet-based applications, tools or technologies that allow the creation, collaboration, and exchange of user-generated contents<sup>15</sup>. People or organisations can utilise these applications to create, share, comment, and exchange information in a virtual community<sup>15</sup>.

#### 5.2.1. Social Media Technologies

Examples of social media technologies include media sharing sites, blogs/microblogs, social bookmarking sites, virtual/online communities, social networking sites (SNSs), and virtual worlds<sup>16</sup>. These types of social media technologies have different levels of interaction with users<sup>16</sup>. Usually, media sharing sites and SNSs are adopted in a CRM context.

**Figure 5-1 Types of Social Media Technologies<sup>16</sup>**

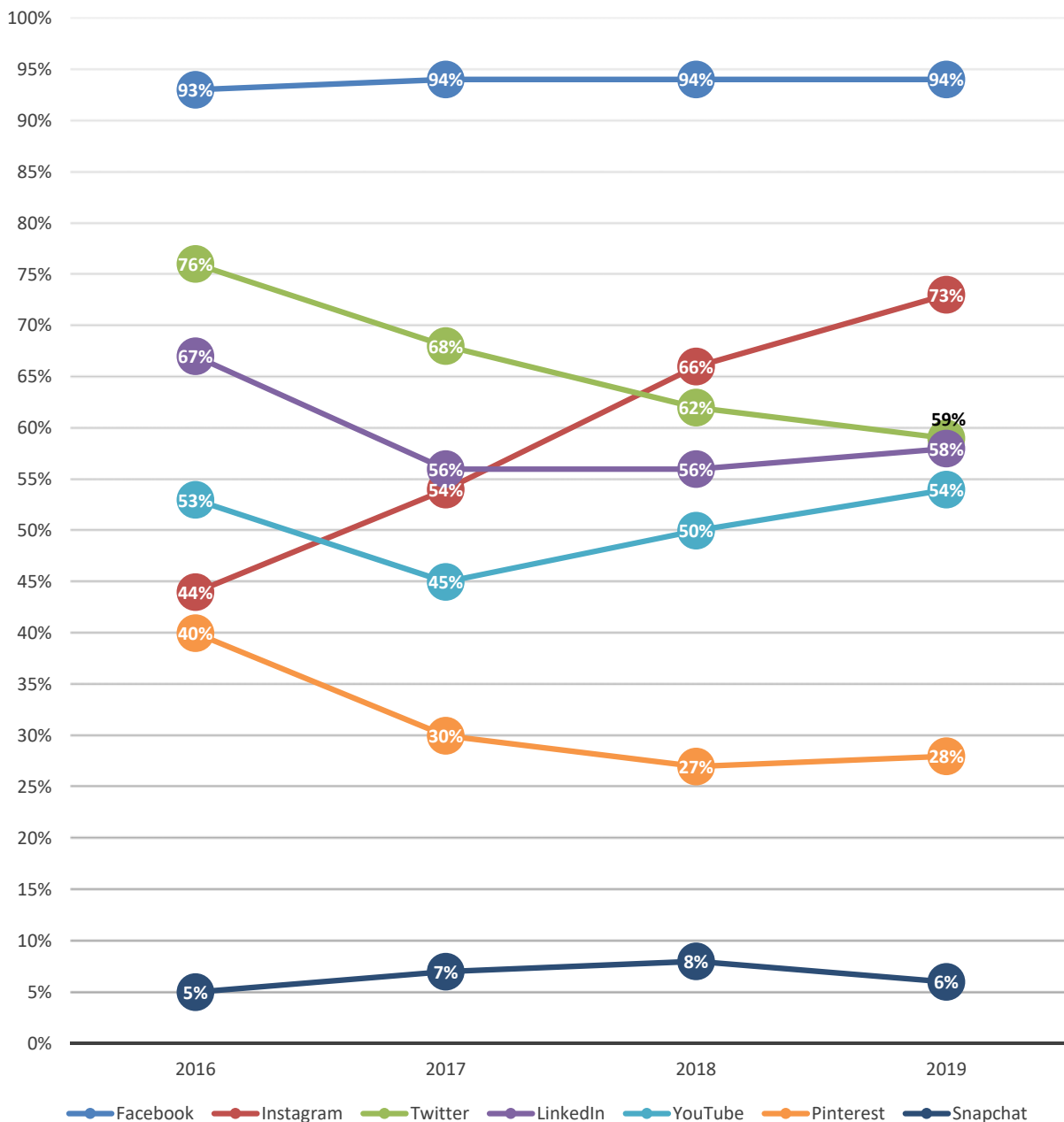
Media Sharing Sites (Weakest Level of Interaction)	<ul style="list-style-type: none"> <li>• Allow users to upload, organise, and share multimedia materials with people or selected communities</li> </ul>
Blogs/Microblogs	<ul style="list-style-type: none"> <li>• Allow authors post their writing or information on the web, hoping someone will read them</li> </ul>
Social Bookmarking Sites	<ul style="list-style-type: none"> <li>• Allow users collaboratively use tags to annotate and categorise the web contents they found interest</li> </ul>
Virtual/Online Communities	<ul style="list-style-type: none"> <li>• Allow individuals share specific information and interests through interactive tools on a website</li> </ul>
Social Networking Sites	<ul style="list-style-type: none"> <li>• Facilitate individuals build social relationships and interests among friends and acquaintances</li> </ul>
Virtual Worlds (Strongest Level of Interaction)	<ul style="list-style-type: none"> <li>• Provide computer-simulated environments in websites where people can live in a virtual world</li> </ul>

## 5.3. Background Statistics of Social Media

### 5.3.1. Company Aspect

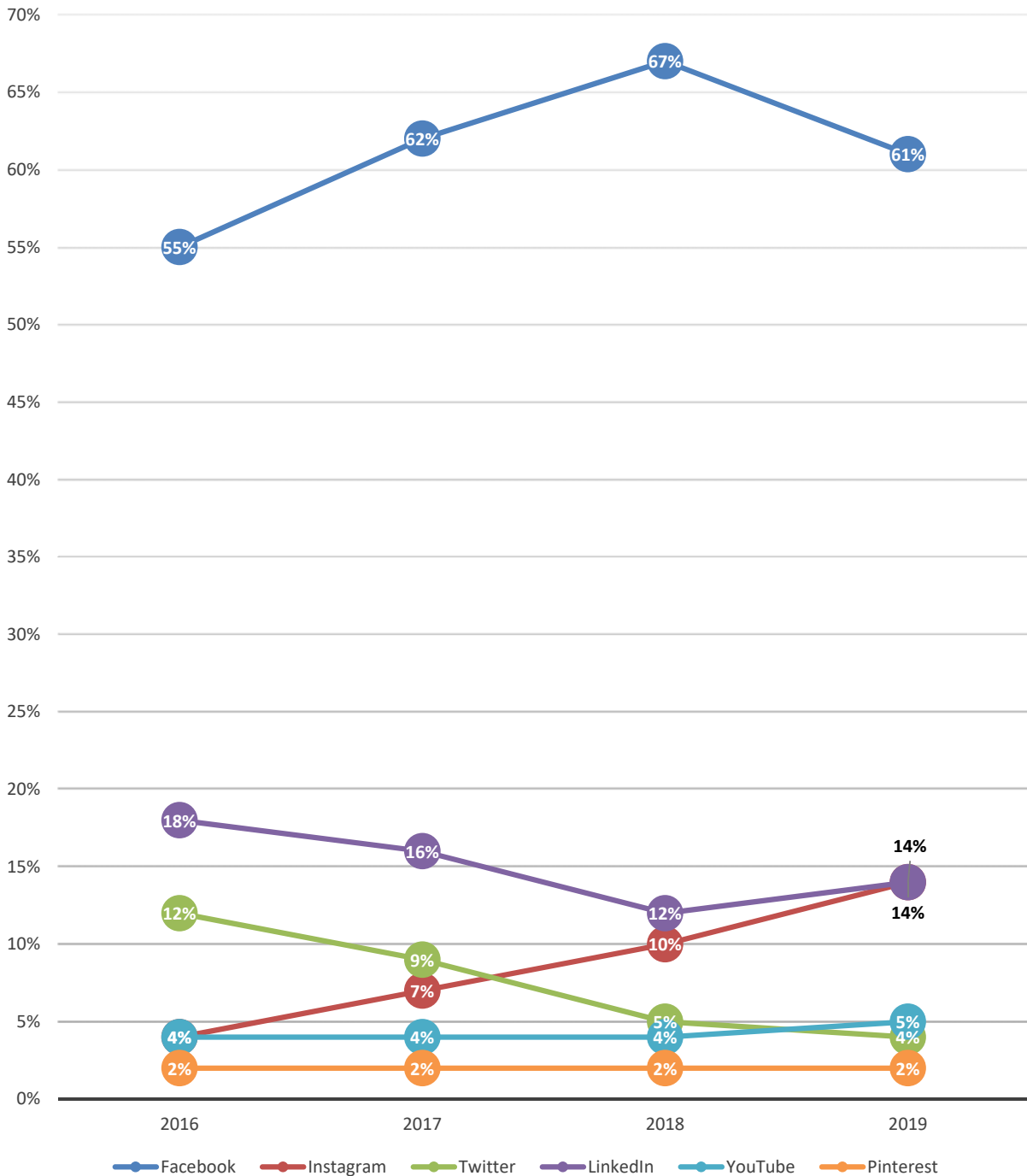
Among those social media platforms, Facebook remains as the most commonly used social media platform among marketers<sup>5, 29, 32, 44</sup>. Instagram is the one with the fastest adoption growth. It increased from 44% in 2016 to 73% in 2019. Twitter, as compared, has shown a decreasing trend that it is less used by marketers to communicate with consumers. LinkedIn and Pinterest are able to keep its popularity among marketers, while YouTube keeps a steady growth in recent three years. Snapchat is used, but its popularity among marketers is not as good as other platforms.

**Figure 5-2: Commonly Used Social Media Platform** <sup>5, 29, 32, 44</sup>



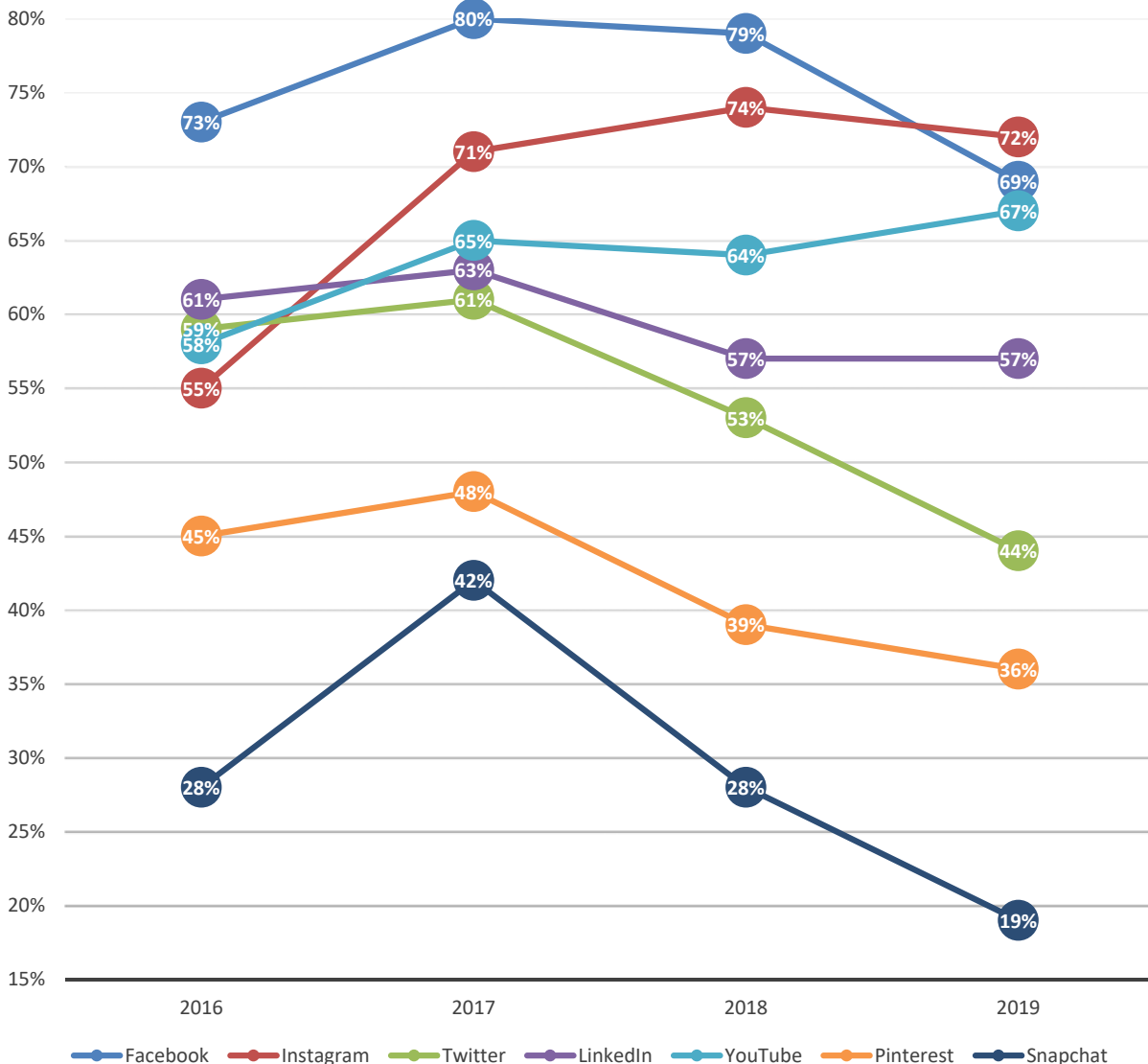
About the most important social media platform for marketers to communicate with consumers, Facebook is the top priority, but its importance decreased from 67% in 2018 to 61% in 2019<sup>5, 29, 32, 44</sup>. The importance of LinkedIn and Instagram follows Facebook's, but Instagram is more competitive in the future. Its importance is increasing in recent years. YouTube, Twitter, and Pinterest were, however, relatively less important from the marketers' perspective.

**Figure 5-3 The Most Important Social Media Platform** <sup>5, 29, 32, 44</sup>



When asking the marketers about the social media platforms that they want to learn more about for their business, Instagram takes over the role of Facebook as the top priority in 2019<sup>5, 29, 32, 44</sup>. The attractiveness of Facebook was decreased from 79% in 2018 to 69% in 2019, and YouTube is going to catch its position with 67% of marketers would consider learning it more in 2019. Other platforms are showing a decreasing trend. This may occur due to the increasing adoption and understanding of these platforms among marketers.

**Figure 5-4 Media Platforms Marketers Want to Learn More About**<sup>5, 29, 32, 44</sup>

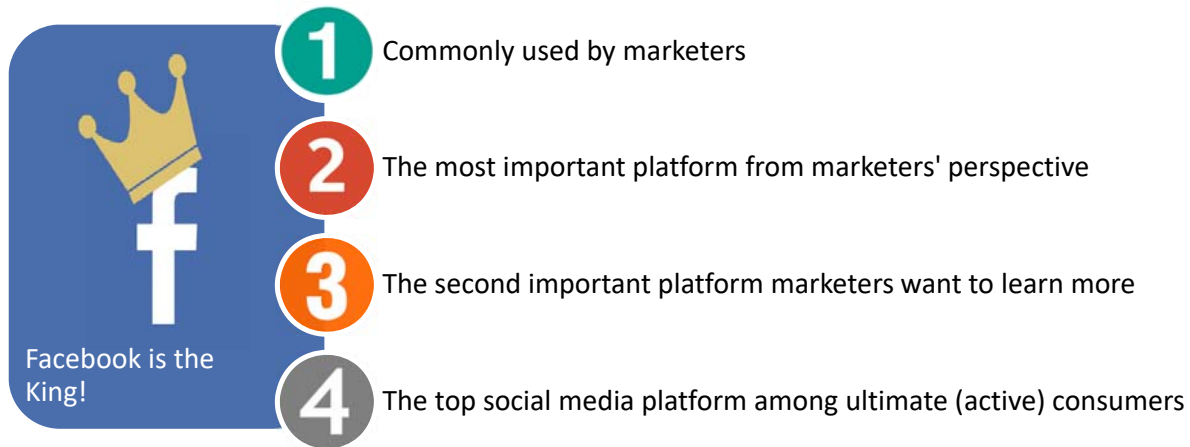


### 5.3.2. Consumer Aspect

In 2019, there were 3.5 billion active social media users with a global penetration of 45%<sup>30</sup>, as compared to 2.3 billion active social media users and 31% global penetration rate in 2016<sup>33</sup>. Among the active users, Facebook is the top social networking platform and followed by YouTube, Instagram<sup>30</sup>. On average, Internet users have 8.9 social media accounts, and they spent 136 minutes daily on social media<sup>30</sup>. The majority of social media audience is those aged 25 to 34 (32%) and followed by those aged 18 to 24 (27%), 35 to 44 (16%), 45 to 54 (10%), and 13 to 17 (7%)<sup>30</sup>. Users aged 16 to 24 are more enthusiastic about social media, as they usually spent more time on social media with around 3 to 4 hours daily<sup>45</sup>

### 5.3.3. Summary of Statistics

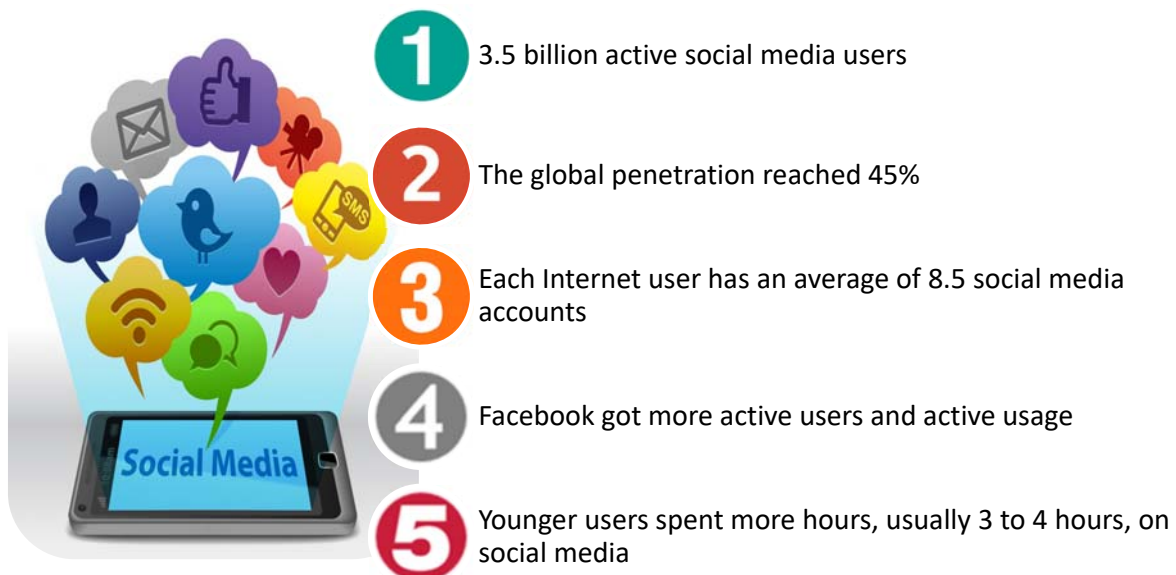
**Figure 5-5 Statistic #1. Facebook is the King!**



**Figure 5-6 Statistic #2. Instagram is a strong rival**



**Figure 5-7 Statistic #3. Facts about Social Media Users**



### 5.3.4. Social Media Marketing

The social media world is continuously changing in both consumer and marketer aspects. It is commonly expected that there would be some changes in the social media world<sup>14, 37, .38, 39, 40, 41, 42</sup>.

1. **Shifting to a mobile-first strategy.** Mobile devices have become the primary screen for most social media users. The mobile devices generated more traffic than desktop and tablet search. A mobile-friendly website or app is a must for marketers. They have to spend more time and budget on perfecting the brand story across all devices as well.
2. **Creating the right-time contents with real-time engagement.** Having the right contents to be delivered to the right audience at the right time remained as the trend of social media marketing, but real-time responses should be taken into account. It was found that 70% of Twitter users expect a response from brands they have contacted, and 53% want a response from the brand in less than an hour, and this figure jumped to 72% when they have made a complaint.
3. **More focus on content marketing.** It would be more content creation, and the budgets are expected to grow in the future. The focus will be changed to the measurement of ROI and the effectiveness of the content.
4. **Visual marketing drives engagement.** Visual marketing is taking over the engagement on social media. The engagement of Instagram posts is up 416% in just two years. Visual marketing will continue to grow in the future. Proper planning about the use of multimedia and graphics for social media is needed.
5. **Video contents continue to dominate.** Online users love watching videos. This can be proven by the popularity of YouTube (over a billion users) and the daily videos on Facebook (8 billion views daily as on November 2015). Also, contents within videos receive more engagement rates than those contain plain text. Various types of videos, like explainer videos, educational videos, and entertainment videos, could be used.
  - a. **Explainer videos** show audiences how to use the products and also the benefits or features of the products<sup>41</sup>.
  - b. **Educational videos** are used to instruct audiences and also market the products/brands to them<sup>41</sup>.
  - c. **Entertainment videos** are used to keep audiences entertained and engaged through a series of short and shareable videos<sup>41</sup>.
6. **The popularity of in-the-moment contents.** Live streaming or in-the-moment updates have become very popular. Existing social media platforms like Snapchat, Instagram, and Facebook are providing live streaming for users, while there are also new entrants offering live streaming services, for examples TikTok, Caffeine, are Lasso (launched by Facebook)<sup>46</sup>. It would make huge changes to marketers in how they use social media in the new era.
7. **“Buy” buttons on social media.** Social commerce – the act of selling via social networks – will likely increase in the future. “Buy” buttons have been showing up on social networks like Pinterest, Instagram, and Twitter, which allow social media users to purchase from the sites directly. It helps marketers effectively reach their potential prospects and increase the conversion rate.

## 5.4. Opportunities and Challenges of Using Social Media in CRM

When adopting social media in CRM, we usually name it as Social CRM. Social CRM brings a large number of opportunities to enrich traditional CRM practices, but there are also some challenges raised. The opportunities and challenges are in three aspects<sup>6</sup>:

### ***Aspect 1: Data Processing***

Enormous data could be collected on social media, but this creates the challenge to mine the social data into meaningful information. Marketers should have appropriate skills and analytics to mine and to manage the data for subsequent CRM or marketing actions.

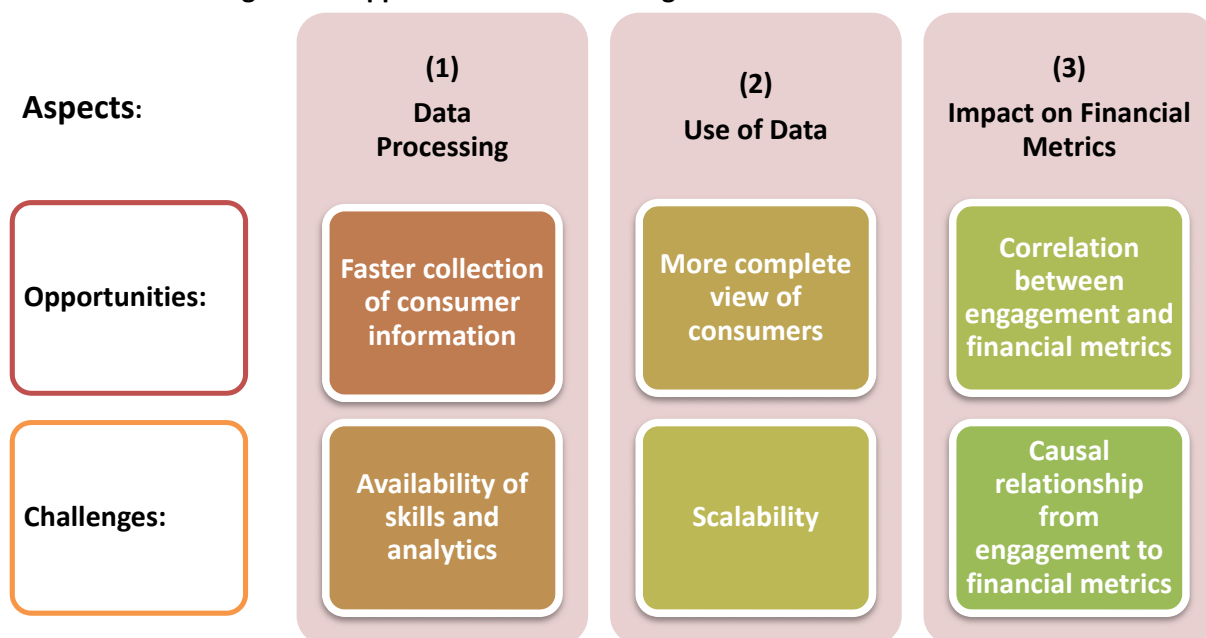
### ***Aspect 2: Use of Data***

Conservations among consumers on social media are made in a naturalistic and volunteering environment. It can reveal consumers' true preference and opinions that marketers can offer more personalised customer service support, discover new product/service ideas, and identify brand advocates, etc. However, one-to-one support is not doable for most B2C companies. Marketers have to adopt automated tools to streamline and prioritise consumers' enquiries, data and requests to enhance their experience but remain scalable and cost-effective business operation.

### ***Aspect 3: Impact on Financial Metrics***

Social media allow marketers to provide a more engaging consumer experience, which is correlated with company financial performance, but the causal effect is not yet confirmed. Other than determining quantitative ROI, it is necessary to adopt qualitative metrics for measuring the effectiveness of social media strategy, such as customer feedback, brand advocates and influencers, publicity, brand awareness, etc<sup>7</sup>.

**Figure 5-8 Opportunities and Challenges of Social Media in CRM**



## 5.5. Top Five Risks When Using Social Media in CRM

Social media offers tremendous upside for business, but at the same time, it opens to enormous risks when not managing the media properly. The top five risk of using social media and respective solutions for marketers<sup>8</sup>:

1. **Reputation management:** Social media may involve negative publicity, which causes a risk to a company's reputation. Legal issues may also arise if a company gives an inappropriate comment about another company on a social media platform, for instance.

**Solution:** Do not give junior employees full control. They are less experienced in managing social media, and that could cause irreparable damage to a brand. The company can involve senior employees to support social media communication.

2. **Security:** Confidential information may be leaked outside because of hacking, spy-ware, bugs, or weak security systems.

**Solution:** Work with professional or IT department to ensure proper privacy and security settings are in place to protect confidential information, to avoid having customer accounts hacked, or falling victim to cyber theft.

3. **Two-way dialogue and criticism:** Social media allows a company to interact directly with customers in a real-time; it also gives them a public platform to voice dissatisfaction.

**Solution:** Carefully monitor the social media platform, quickly identify negative feedback and address it before it gains support.

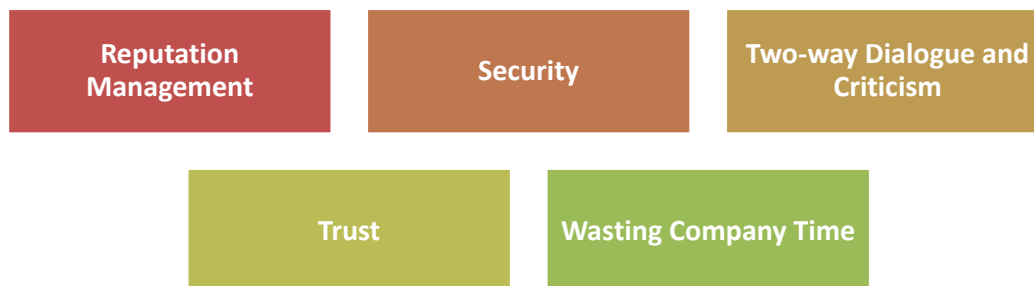
4. **Trust:** Trust employees in using social media to communicate with consumers; otherwise, it can present a risk that the brand reputation may be ruined by employees' actions or feedback on social media.

**Solution:** Offer an extensive training program for the entire organisation highlighting the do's and don'ts of social media strategy and assign trusted employees to manage social media marketing.

5. **Wasting company time:** Social media can be addictive, and there is a risk that employees will spend too much time on it, compromising their work and then the business operations.

**Solution:** Periodically monitor what social media employees visit and how much time involved. Involve human resources staff or supervisory staff to discuss with those employees who spend an unnecessary amount of time on the media sites.

Figure 5-9 Top Five Risks of Using Social Media in CRM



## 5.6. Content Marketing for Social Media Marketing

In the 21<sup>st</sup> century, no business can be successful without a sound social media strategy to communicate with customers or potential consumers. The rapidly changing nature of social media makes it critical for marketers to understand how to leverage social media in CRM strategy. Creating good social media contents is the key to attract audiences and enhance conversion rate. Content marketing takes a supporting role in this area.

### 5.6.1. Content Marketing

Content marketing is a way of marketing products or services to target customers by creating **consistent, informative, quality, valuable, engaging, and relevant** contents on media that attracts and engages the customers and possibly encourages profitable customer action<sup>17</sup>. It could be used in channels like website, blog, email, magazine, newsletter, and social media. The contents could be in the format of the text, video, image, infographic, or a combination of them. More and more companies are incorporating content marketing in a CRM context.

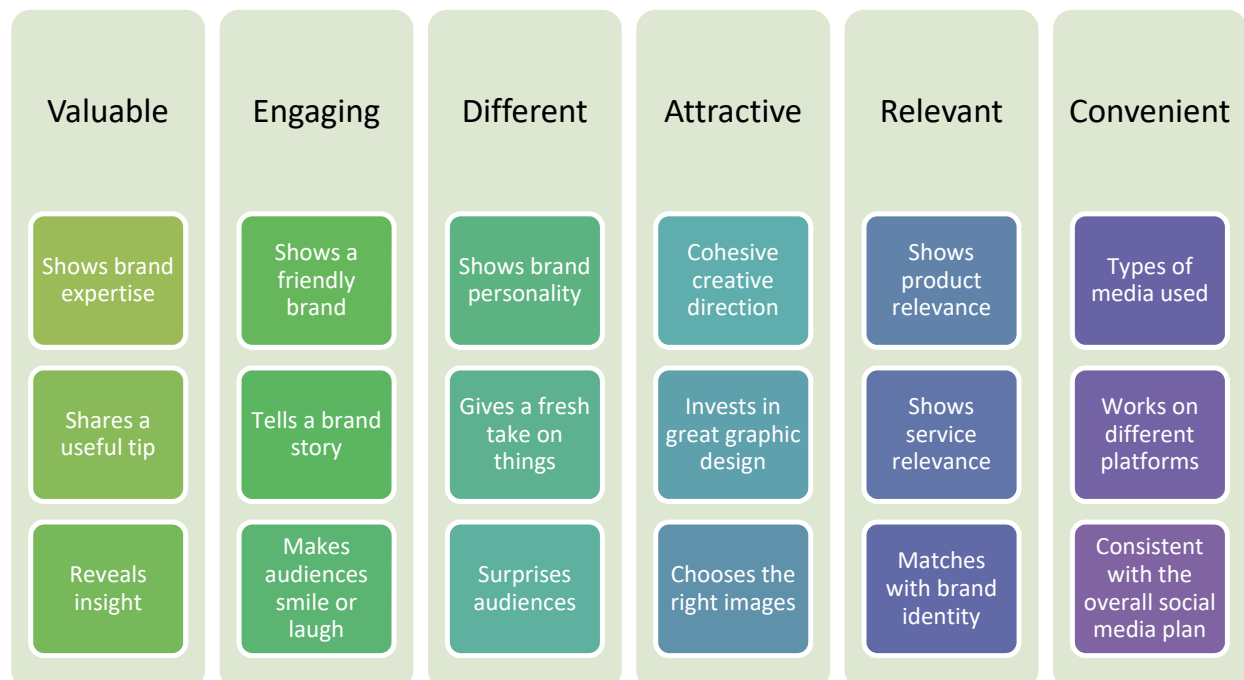
Figure 5-10 Formats of Content Marketing



### 5.6.2. Adopting Content Marketing in Social Media Strategies

Great contents should have the following six features: valuable, engaging, different, (visually) attractive, relevant (to the brand), and convenient (for viewing)<sup>9, 10, 11, 43</sup>.

Figure 5-11 Six Features of Great Contents for Social Media<sup>9, 10, 11, 43</sup>



### 5.6.3. Benefits of Content Marketing

Reports show that every 9 out of 10 businesses use some form of content marketing. More marketers plan to do more content marketing in business in the next year. For organisations using content marketing in business, they can enjoy the following eleven benefits:

**Figure 5-12 Eleven Benefits of Content Marketing<sup>18</sup>**



### 5.6.4. Types of Content Marketing Companies

There are five main types of content marketing companies, including Content Creation, Content Curation, Workflow Management, Content Distribution, and Content Analytics<sup>31</sup>. They provide different kinds of services about content marketing for marketers with different needs.

**Figure 5-13 Types of Content Marketing Companies<sup>31</sup>**

Content Creation	Working on technology-enabled solutions to help marketers create content at scale. •Examples: CrowdFlower, WriterAccess, textbroker, Skyword.
Content Curation	Helping marketers syndicate content and repurpose high-quality content for their own properties. •Examples: curata, Listly, Scoop.it!, Storify.
Workflow Management	Helping marketers manage their editorial calendars, assign writers to projects, and distribute/analyse content within their platforms. •Examples: Contently, Google docs, GatherContent, Percolate.
Content Distribution	Helping marketers reach a broader audience. •Examples: livefyre, Little Bird, One Spot, Outbrain.
Content Analytics	Helping marketers measure the ROI and effectiveness of all types of content. •Examples: Google Analytics, Kissmetrics, SimpleReach, Mixpanel.

## 5.7. Chapter Summary

1. Social media technologies include media sharing sites, blogs/microblogs, social bookmarking sites, online/virtual communities, social networking sites (SNSs), and virtual worlds.
2. Facebook is the king among social media, but Instagram is starting to rival Facebook.
3. The key performance indicators for social media strategy have three major categories: reach, engagement, and conversion.
4. There are five major risks when using social media in CRM. It is difficult for marketers to manage, so it is necessary to adopt solutions when using social media to manage the relationship with customers.
5. Content marketing is a new marketing strategy used to create consistent, relevant, engaging, informative, quality, and valuable contents for different online communication channels.

## 5.8. Key Terms

**Content Marketing** is a way of marketing products or services to target customers by creating relevant, engaging, informative, quality, and valuable contents on media that attracts and engages the customers and possibly encourages profitable customer action<sup>17</sup>.

**Social Media** refers to a wide range of Internet-based applications, tools or technologies that allow the creation, collaboration, and exchange of user-generated contents<sup>15</sup>. People or organisations can utilise these applications to create, share, comment, and exchange information in a virtual community<sup>15</sup>.

## 5.9. Concept Check Quiz

1. Describe the benefits of social media.
2. Name any three types of social media technologies.
3. Describe the popularity of Facebook among social media platforms from 2016 to 2019.
4. Explain any two opportunities of social media in CRM.
5. Describe any three risks when using social media in CRM and their respective solution for marketers.
6. Describe any five tips of social media strategy.
7. Define content marketing.
8. Describe the five content issues about content marketing.
9. Describe the formats of content marketing.
10. Describe any five benefits of content marketing to marketers.
11. Describe any one type of content marketing companies with an example.

## 5.10. Concept Challenge Quiz

1. Fujifilm wants to develop a social media strategy to promote its instant-still camera “Instax” among college/university students and young adults. Suggest a cost-effective social media campaign for Fujifilm.

**Hint:** Answers have to integrate different media platforms among the three media categories. A good strategy should have considered the tips of social media strategy. Also, the strategy should be cost-effective to reach the appropriate target audiences.

2. Fujifilm is planning to adopt social media in CRM. Advise Fujifilm five major issues that will be encountered in using social media and their respective solution.

**Hint:** Answers have to address the potential risks of using social media and then the respective solutions for handling the risks. Your explanation should apply to the case situation.

3. Fujifilm is planning to promote its Instax with its potential customers on Facebook. Draft a Facebook post for Fujifilm.

**Hint:** Answers have to address the content issues of content marketing. More relevant references about drafting a Facebook post

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## Chapter 6 Managing Customer Data

### 6.1. Chapter Objectives

- Differentiate different types of data.
- Get familiar with customer data integration (CDI).
- Recognise the opportunities of big data and data-driven marketing era.
- Discuss privacy and ethical dilemmas.

### 6.2. Categorising Data

Data is critical to business operation process and CRM strategy. As a CRM data analyst, the first thing about data management is to understand the different classification of data: (1) categorical and metric data; (2) primary, secondary and derived data; (3) individual and household data. The following tables show the characteristics of these data<sup>1,2</sup>:

The first classification is categorical and metric data. Categorical data could be further divided into nominal data and ordinal data, while metric data include interval data (discrete in nature) and ratio data (continuous in nature). These types of data have certain features. Nominal data only has the assignment property, while the ordinal data has both assignment and order properties. Interval data has the assignment, order, and distance properties, and ratio scale has all four properties (i.e. assignment, order, distance, and origin).

**Figure 6-1 Categorical and Metric Data**

	Types	Assignment Property	Order Property	Distance Property	Origin Property
<b>Categorical Data</b>	Nominal	Yes			
	Ordinal	Yes	Yes		
<b>Metric Data</b>	Interval	Yes	Yes	Yes	
	Ratio	Yes	Yes	Yes	Yes

Types of Property	Description / Features
<b>Assignment</b>	Measurements with unique descriptors or labels
<b>Order</b>	Measurements with hierarchical rank-order feature among the descriptors
<b>Distance</b>	Measurements with absolute differences between the descriptors or scale points
<b>Origin</b>	Measurements with the true natural zero among the scale points

Figure 6-2 Examples of Categorical and Metric Data

Types		Examples
Categorical Data	Nominal	What is your gender? <input type="checkbox"/> Female <input type="checkbox"/> Male
		Do you like watching movies? <input type="checkbox"/> Yes <input type="checkbox"/> No
		Which type of fruits do you like most? <input type="checkbox"/> Apple <input type="checkbox"/> Orange <input type="checkbox"/> Melon <input type="checkbox"/> Grapes
	Ordinal	Please rank your preferences of the following fruits from 1 The Most Preferred to 3 The Least Preferred ___ Apple ___ Orange ___ Melon ___ Grapes
		Which category best describes your knowledge about our repair services? <input type="checkbox"/> Complete <input type="checkbox"/> Good <input type="checkbox"/> Basic <input type="checkbox"/> Little <input type="checkbox"/> No
		How likely would you continue to purchase at our shop? <input type="checkbox"/> Very Likely <input type="checkbox"/> Likely <input type="checkbox"/> Unlikely <input type="checkbox"/> Very Unlikely
Metric Data	Interval	Please rate your satisfaction levels towards our repair services from 1 Very Dissatisfied to 6 Very Satisfied: ① Very Dissatisfied      ② Dissatisfied      ③ Slightly Dissatisfied ④ Slightly Satisfied      ⑤ Satisfied      ⑥ Very Satisfied
		Please rate the performance of our delivery services from 1 Very Bad to 5 Very Good: ① Very Bad    ② Bad    ③ Neither Bad Nor Good    ④ Good    ⑤ Very Good
		What is your monthly income? <input type="checkbox"/> \$0 to \$10,000 <input type="checkbox"/> \$10,001 - \$20,000 <input type="checkbox"/> \$20,001 - \$30,000 <input type="checkbox"/> \$30,000 or above
	Ratio	What is your monthly income? \$ _____
		On average, how much do you spend on clothing per month? \$ _____
		How many products did customer purchase in one transaction at our store today? _____

The second classification is related to the originality of the data: primary, secondary, and derived.

Figure 6-3 Primary, Secondary and Derived Data

Primary Data	Secondary Data	Derived Data
<ul style="list-style-type: none"> <li>Collected directly from the original source.</li> <li>Examples: data collected from membership form for membership system, comment cards for improving service performance.</li> </ul>	<ul style="list-style-type: none"> <li>Collected from a party other than the one for which the data represents.</li> <li>Examples: data of a new consumer referred by an existing customer, industrial report or information released by professional bodies.</li> </ul>	<ul style="list-style-type: none"> <li>Information created or inferred from other data.</li> <li>Examples: inferred consumers' spending potential based on an analysis of income, living area, family status, and age.</li> </ul>

The last classification is about the individual or grouped data: individual and household data.

**Figure 6-4 Individual and Household Data**

Individual Data	Household Data
<ul style="list-style-type: none"> <li>Data attributed to a specific person.</li> <li>Examples: individual spending on personal care products, individual satisfaction towards an online shopping experience.</li> </ul>	<ul style="list-style-type: none"> <li>Data attributed to individuals under the same household.</li> <li>Examples: household spending on personal care products, household satisfaction towards estate management services.</li> </ul>

**Figure 6-5 Game Corner**

*Instruction: Use a tick to classify the following data into respective data types*

Measures	Types of Data
1. <b>Data source:</b> membership form of a coffee brand <b>Subject:</b> individual members <b>Data:</b> How frequently do you drink coffee per week? (a) 1 to 3 times (b) 4 to 6 times (c) 7 to 9 times (d) 10 times or more <b>Original collection purpose:</b> find out the consumption pattern <b>Action to be taken:</b> better understand each new member for further promotion and marketing	<div> <input type="checkbox"/> Interval data    <input type="checkbox"/> Nominal data  <input type="checkbox"/> Ratio data    <input type="checkbox"/> Ordinal data           </div> <div> <input type="checkbox"/> Primary data    <input type="checkbox"/> Secondary data    <input type="checkbox"/> Derived data           </div> <div> <input type="checkbox"/> Individual data    <input type="checkbox"/> Household data           </div>
2. <b>Data source:</b> transaction database of a coffee brand <b>Subject:</b> members' records <b>Data:</b> A column of each member's profile recorded the <b>cumulative number of transactions</b> made since the first purchase in the database summary. <b>Original collection purpose:</b> keep records of the transaction <b>Action to be taken:</b> the brand decides to screen out those who have made at least 10 transactions in the last month for a new campaign	<div> <input type="checkbox"/> Interval data    <input type="checkbox"/> Nominal data  <input type="checkbox"/> Ratio data    <input type="checkbox"/> Ordinal data           </div> <div> <input type="checkbox"/> Primary data    <input type="checkbox"/> Secondary data    <input type="checkbox"/> Derived data           </div> <div> <input type="checkbox"/> Individual data    <input type="checkbox"/> Household data           </div>
3. <b>Data source:</b> satisfaction survey of a coffee brand <b>Subject:</b> individual customers <b>Data:</b> Please rate your satisfaction towards our coffee drinks from <b>1 strongly dissatisfied to 10 strongly satisfied</b> _____ <b>Original collection purpose:</b> services recovery <b>Action to be taken:</b> the brand decides to screen out those who rated 5 or less to have a services recovery plan	<div> <input type="checkbox"/> Interval data    <input type="checkbox"/> Nominal data  <input type="checkbox"/> Ratio data    <input type="checkbox"/> Ordinal data           </div> <div> <input type="checkbox"/> Primary data    <input type="checkbox"/> Secondary data    <input type="checkbox"/> Derived data           </div> <div> <input type="checkbox"/> Individual data    <input type="checkbox"/> Household data           </div>

Measures		Types of Data	
4.	<p><b>Data source:</b> a research report about household consumption of health products, which was purchased from a research agency</p> <p><b>Subject:</b> households</p> <p><b>Data:</b> It is reported that families with seniors aged 40 or above researched <i>more information</i> about health products</p> <p><b>Original collection purpose:</b> general consumer information for the industry</p> <p><b>Action to be taken:</b> the brand decides to plan a new set of communication strategies to reach this segment</p>	<input type="checkbox"/> Interval data <input type="checkbox"/> Nominal data <input type="checkbox"/> Ratio data <input type="checkbox"/> Ordinal data	
		<input type="checkbox"/> Primary data <input type="checkbox"/> Secondary data <input type="checkbox"/> Derived data	
		<input type="checkbox"/> Individual data <input type="checkbox"/> Household data	
5.	<p><b>Data source:</b> transaction database of a tea brand</p> <p><b>Subject:</b> individual members</p> <p><b>Data:</b> the brand infers that members are <i>innovators</i> and <i>enjoy trying new tea products</i></p> <p><b>Original collection purpose:</b> keep records of the transaction</p> <p><b>Action to be taken:</b> the brand decides to promote a new tea product to this group of members according to its prediction</p>	<input type="checkbox"/> Interval data <input type="checkbox"/> Nominal data <input type="checkbox"/> Ratio data <input type="checkbox"/> Ordinal data	
		<input type="checkbox"/> Primary data <input type="checkbox"/> Secondary data <input type="checkbox"/> Derived data	
		<input type="checkbox"/> Individual data <input type="checkbox"/> Household data	
6.	<p><b>Data source:</b> membership database of a personal care retailer</p> <p><b>Subject:</b> households</p> <p><b>Data:</b> the brand classified the household members into three loyalty groups: <i>high</i>, <i>medium</i>, and <i>low</i>; which was derived from the consumption patterns and cumulative purchase amount</p> <p><b>Original collection purpose:</b> keep records of the consumption behaviours of each household member</p> <p><b>Action to be taken:</b> the brand decides to adopt differentiation strategies to reach these three groups</p>	<input type="checkbox"/> Interval data <input type="checkbox"/> Nominal data <input type="checkbox"/> Ratio data <input type="checkbox"/> Ordinal data	
		<input type="checkbox"/> Primary data <input type="checkbox"/> Secondary data <input type="checkbox"/> Derived data	
		<input type="checkbox"/> Individual data <input type="checkbox"/> Household data	
7.	<p><b>Data source:</b> a research report about the perceived benefits of drinking tea among consumers, which was purchased from a research agency</p> <p><b>Subject:</b> consumers</p> <p><b>Data:</b> the reports showed that a list of benefits of drinking tea</p> <p><b>Original collection purpose:</b> general consumer and product information for the industry</p> <p><b>Action to be taken:</b> the brand decides to emphasise these five benefits on its promotional materials</p>	<input type="checkbox"/> Interval data <input type="checkbox"/> Nominal data <input type="checkbox"/> Ratio data <input type="checkbox"/> Ordinal data	
		<input type="checkbox"/> Primary data <input type="checkbox"/> Secondary data <input type="checkbox"/> Derived data	
		<input type="checkbox"/> Individual data <input type="checkbox"/> Household data	

## 6.3. Customer Data Integration

### 6.3.1. Data Quality Problems of Existing Database Management Systems

Existing database management systems being adopted by marketers failed to integrate well the data collected from various touchpoints and updated in a timely manner. Usually, these marketers may suffer the following symptoms in serving customers<sup>1</sup>:

#### 1. Data latency

When marketers have to process large volumes of data through traditional extraction, transformation, deduplication and distribution into meaningful customer information, it often takes time and then ages the data unnecessarily. This can seriously affect the effectiveness of CRM strategy and services to customers.

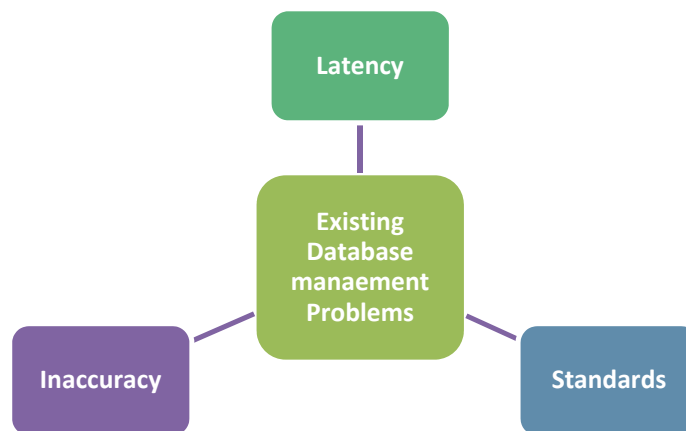
#### 2. Lack of data and distribution standards

Databases are usually developed in isolation. They capture and store data in different ways without linking customer information across sources. There are no standard means to integrate customer data at the point of contact.

#### 3. Data inaccuracy

Customers usually present themselves uniquely to companies. Traditional data-matching techniques are, therefore, not perfect and accurate enough for CRM applications to cure the real-time and enterprise-wide integration problem. It affects the accuracy of customer data across channels.

**Figure 6-6 Existing Database Management Problems**



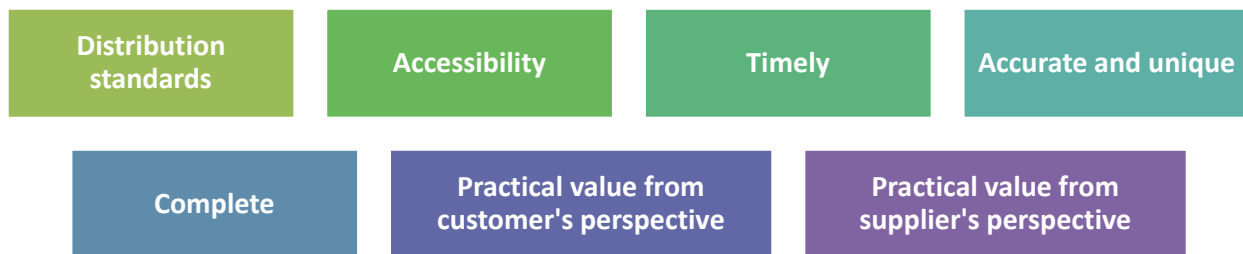
### 6.3.2. Requirements for Customer Data Integration

In order to meet the customer expectation of his/her interaction with a business, marketers have to implement customer data integration (CDI) to enable relevant information to flow freely throughout an enterprise to the point of interaction<sup>1</sup>. CDI is a data management process where all prospect and customer data can be distributed to points of interaction in a timely and accurate manner<sup>1</sup>. There are seven unique requirements of data quality for CDI when considering the overall CRM objective<sup>1,3</sup>:

1. **Distribution standards** – standardised distribution reference has to be set and maintained throughout all interaction points.
2. **Accessibility** – data has to be accessed at all interaction points.
3. **Timely** – all customer data needed for decision making must be delivered within an appropriate time frame at the interaction points.

4. **Accurate and unique** – customer data delivered must consistently and accurately represent each unique customer entity, including individuals, households or businesses.
5. **Complete** – data must be collected from each interaction points to build up a complete record of each individual customer.
6. **Practical value from the customer's perspective** – customers have to perceive the practical value and needs of the data to be collected as high.
7. **Practical value from the company perspective** – the commercial value of data is high from the company perspective.

Figure 6-7 Seven Data Quality Requirements for CDI

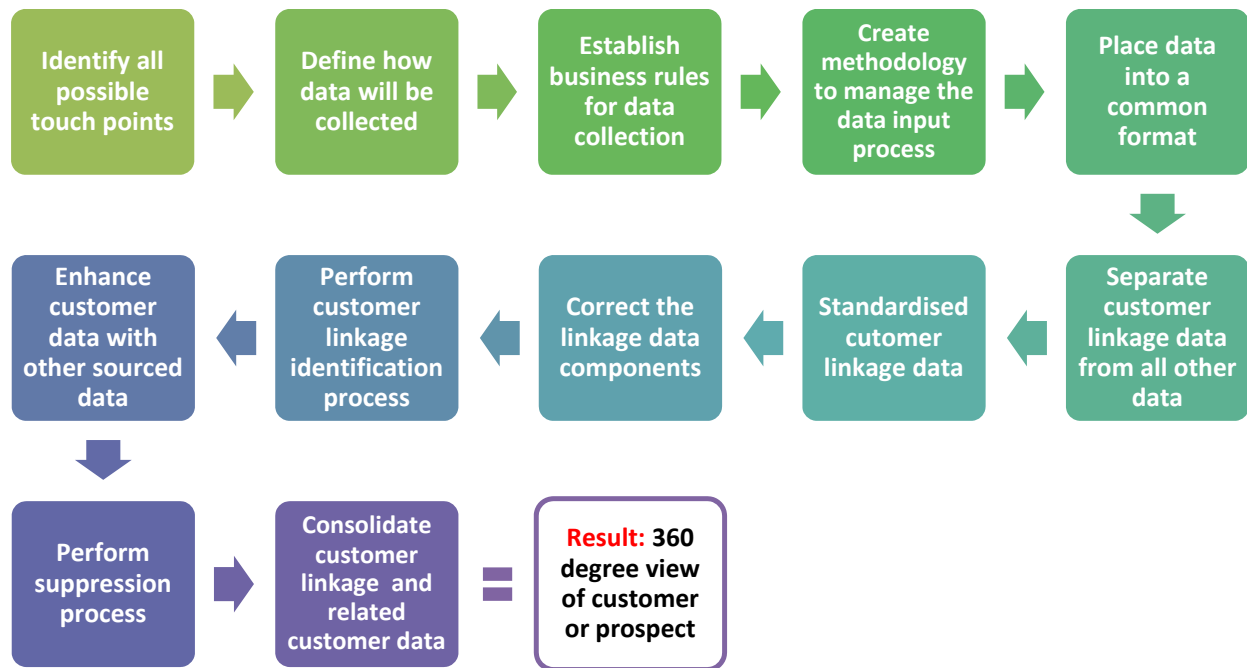


### 6.3.3. Steps of Customer Data Integration

In the CDI process, collected and accumulated data could be transformed into knowledge through a series of functions and then used to create a consolidated view of customers. There are 12 steps to consolidate and transform customer data<sup>1</sup>:

1. **Identify all possible interaction touchpoints with current and prospective customers.** Examples include Web, hotline, kiosks, face-to-face, written documents, fax, shop, competition entry form, sweepstakes, etc.
2. **Define how data will be collected from each interaction touchpoint.** Methods include human-to-human interaction (e.g. retail sales counter, customer service representatives), human-to-technology interaction (e.g. kiosk, Web, mobile apps), or technology-to technology interaction (e.g. RFID, voice mail).
3. **Establish business rules for data collection.** In many cases, the same customer data may be captured from more than one touchpoint. Companies have to determine the types of data to be collected and the priority setting for each data variable among the touchpoints.
4. **Create a methodology to manage the data input process after data collection.** The data input process should be coordinated to meet the timing requirements of other processes, ensure security, and be consistent and accurate.
5. **Place data into a common format.** Adopt a standard format for data input across all touchpoints, including the number of characters and proper character types (e.g. alpha, numeric, special characters).
6. **Separate customer linkage data from all other data.** Data could be divided into two categories:
  - (a) **non-linkage data**, which is any data variable not used to identify contact information, e.g. products purchased, the price paid, or date of purchase;
  - (b) **linkage data**, which is any data variable used to identify a person, business or household. Examples could be membership number, credit card number, name, address, contact phone number, email address, etc.

Figure 6-8 Steps of CDI



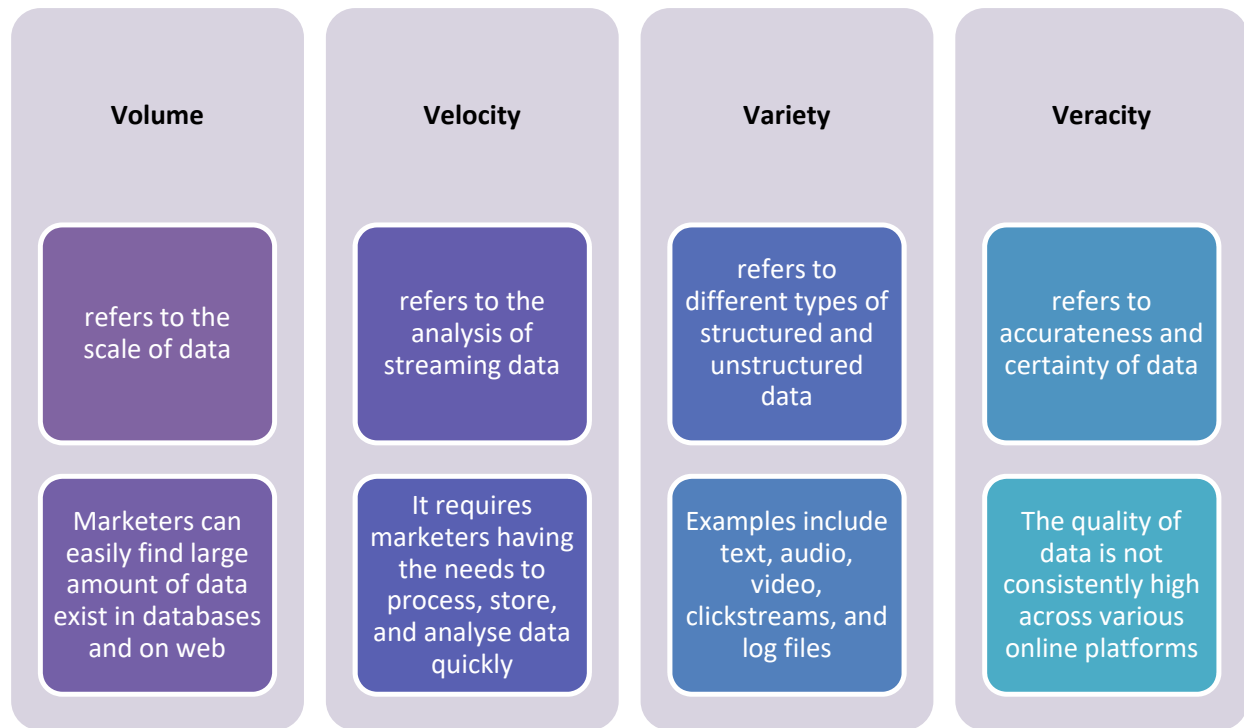
7. **Standardise customer linkage data** in terms of the number of characters and data types by using software to analyse each data element.
8. **Correct the linkage data components.** Use software to identify data errors and make corrections correspondingly.
9. **Perform customer linkage identification process.** This process links individual customer records that appear more than once in any set of data. It is referred to as “*merge*”. The purpose is to identify each appearance of an individual and to assign an identifier to each record occurrence. Usually, there are three types of record linkage methods:
  - a. **Manual record matching** is the oldest, most time-consuming, and costliest method and is not a feasible option when large databases are involved.
  - b. **Deterministic record linkage** links pairs or records on the basis of whether they match on certain variables, e.g. surname, address, birth date, gender or some combination thereof.
  - c. **Probabilistic record linkage** uses probabilities to determine whether a pair of records refers to the same individual.
10. **Enhance customer data with other sourced data.** Add the matched secondary data to existing customers or prospects by using the software, which can enrich subsequent CRM initiatives.
11. **Perform a suppression process on data.** Suppress a person, who is not welcomed to the brand, in a database for not keeping any relationships by using some data enhancement and data suppression providers, e.g. Infogroup, Nielsen Claritas. Put them under “Do not Call/Mail” list.
12. **Consolidate customer linkage and related customer data.** Reunite linkage and non-linkage data by respective sequence numbers to generate a single consolidated view of individual customers.

## 6.4. Big Data and Data-Driven Marketing Era

### 6.4.1. Introduction to Big Data

Big data refers to a large amount of structured and unstructured data, which is too complex to be captured, processed, stored, searched, and analysed by conventional database management systems. This highlights the characteristics of big data: volume, velocity, variety, veracity<sup>4, 5, 9</sup>.

**Figure 6-9 Characteristics of Big Data**



Big data exists beyond company web analytics or databases. It often exists outside of an organisation, and sources include (but not limited to) social sharing data owned by different social media enterprises, competitive pricing data from comparison shopping engines, and consumers' mobile subscriptions<sup>6</sup>. It is expected that web traffic will be dominated by wireless devices, and the volume of digital content will be increased.

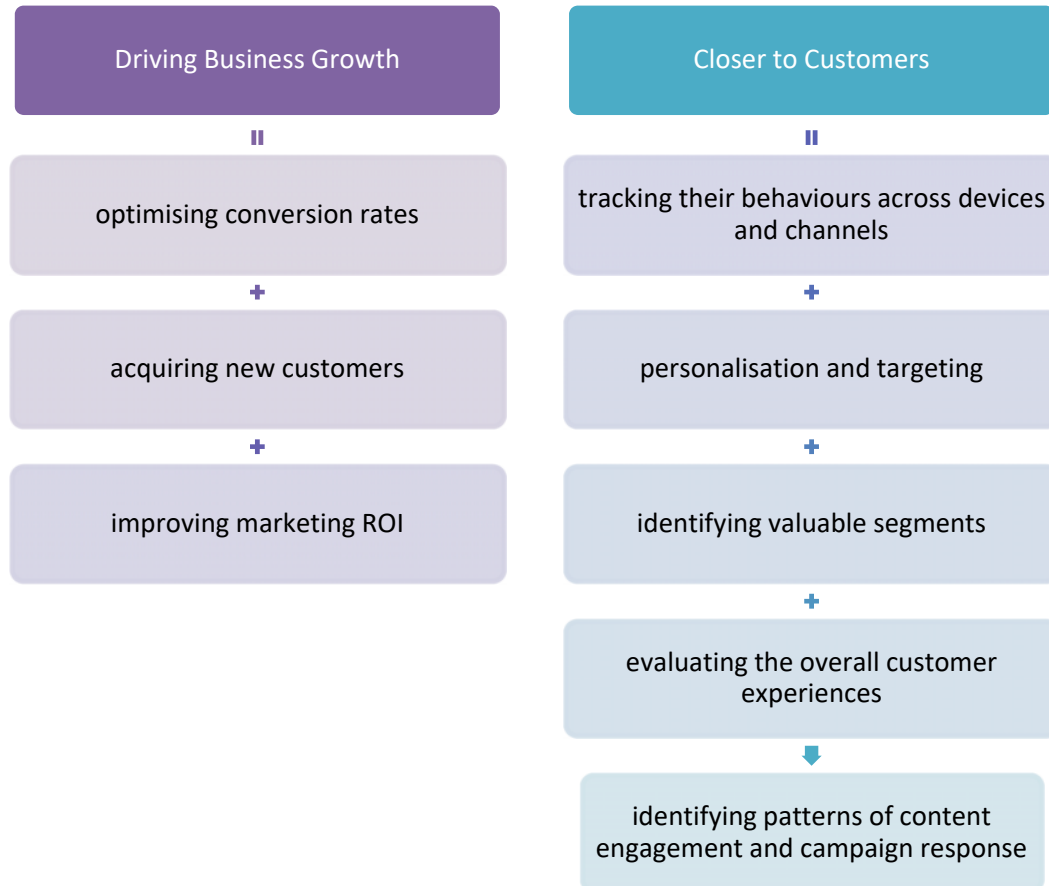
**Figure 6-10 Sources of Data**



### 6.4.2. Data-driven Marketing

In the era of data-driven marketing, it is necessary to make use of big data to develop and manage customer relationships. Analytics (analysed data) are expected to **drive business growth** and bring organisations **closer to customers**<sup>8</sup>.

Figure 6-11 Benefits and Strategies of Data-driven Marketing



### 6.5. Privacy and Ethical Dilemma

Marketers are increasingly applying analytics to tailor user experience in CRM, but concerns about data ethics are popping up that force organisation to rethink the use of data.

**Dilemma #1: Should marketers use bundled or unbundled terms in collecting customer data?** Bundled terms force consumers to give consent to all terms or else completely withdraw from future communication, but that brings more economic benefits to marketers<sup>3</sup>. Unbundled terms allow sufficient and meaningful choices for consumers to give consent in receiving future communication, but that brings less economic benefits to marketers.

**Dilemma #2: Should marketers collect some essential data for CRM or marketing if customers are not willing to provide but indeed provide upon request?** Marketers usually prefer to collect more data from customers to ensure the success rate of a CRM campaign, but it may run the risk of alienating their most valuable assets - customers<sup>10</sup>. If marketers respect customers' wishes, the CRM campaign may be less effective in inducing repeated purchases and keeping relationships.

**Dilemma #3: Should marketers use the collected data that consumers do not want to be used for CRM or marketing?** Some consumers provided certain personal information for marketers, but they do not allow marketers to use some of their personal information for marketing or CRM<sup>11</sup>. If marketers ignore customers' wishes and fully utilise the data, it may have greater success in serving customers. However, it may have to face unhappy customers if the customers found that their data was actually used.

**Dilemma #4: To what extent, how much customer data could be used by marketers for marketing and CRM?** Some consumers feel that it is acceptable for a brand to use customer data analytics to predict churn/loyalty and develop customer profiles for marketing. However, using personally identifiable customer data, such as names, addresses, to change pricing offers or availability of services is a concern to consumers<sup>3</sup>.

## 6.6. Chapter Summary

1. Data could be classified as (a) categorical and metric data (nominal, ordinal, interval, and ratio data); (b) primary, secondary and derived data; (c) individual and household data.
2. Individual customer data of a household could be consolidated and categorised as household data.
3. Existing database management systems usually suffer data latency, data inaccuracy, and inconsistent data and distribution standards.
4. CDI has 12 steps to achieve a 360-degree view of customer or prospect. When doing CDI, it is necessary to maintain accurate, unique, timely, accessible and complete data. Also, data has to be distributed and collected via standardised reference. Both customers and suppliers have to find value in the data to be collected.
5. Big data has four major characteristics: volume, velocity, veracity, and variety. Big data and analytics help drive business growth and get closer to customers.

## 6.7. Key Terms

**Big data** refers to a large amount of structured and unstructured data, which is too complex to be handled by conventional database management tools and has to be analysed quickly.

**Categorical data** is also known as qualitative data. We cannot perform mathematics on this data. It could be further classified as nominal data and ordinal data.

**Customer data integration** is a data management process where all prospect and customer data can be distributed to points of interaction in a timely and accurate manner.

**Derived data** is created or inferred from other data.

**Household data** is data attributed to individuals under the same household.

**Individual data** is data attributed to a specific person.

**Metric data** is known as quantitative data. It is measurable. It could be further classified as interval data and ratio data.

**Primary data** is collected directly from the original source.

**Secondary data** is collected from a party other than the party for which the data represents.

## 6.8. Concept Check Quiz

1. Compare the differences between nominal data and interval data. Also, give three examples of each kind of data.
2. Compare the differences between primary data, secondary data and derived data. Also, give two examples of each kind of data.
3. Use one example to illustrate the difference between individual data and household data.
4. Describe the three major symptoms of existing database management in serving customers.
5. Describe any five requirements for CDI about data quality.
6. Briefly describe the 12 steps of CDI in order to generate a 360-degree view of a customer.
7. Define big data and describe its major characteristics.
8. Describe the contribution of big data and analytics to the business.

## 6.9. Concept Challenge Quiz

1. Fujifilm wants to recruit its customers to be the members of “Instax”. It designs to collect all data in order to generate a complete customer profile in the membership form. Argue for or against this marketing decision.

**Hint:** Answers should balance the costs and needs of collecting all possible customer data. Both sides could be discussed first and then conclude your argument for one side.

2. :CHOCOOLATE is one of the brand lines under I.T. You have proposed a competition for it to recruit more youngsters as its customers. Design the competition entry form and then use a table to list out the categories of data to be collected from the form.

**Hint:** Answers should include personal information, contact information, permission (direct marketing) and other relevant information. Utilise a table to list out the categories of each collected data.

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## Chapter 7 Data Privacy and Ethics

### 7.1. Chapter Objectives

- Get familiar with the current privacy ordinance in Hong Kong.
- Distinguish opt-in statement from the opt-out statement.
- Identify five major elements of a privacy statement.

### 7.2. Privacy Concerns

Managing big data and data privacy becomes a concern to every consumer. Privacy is an individual's right to have his/her personally identifiable data protected, at home and work<sup>1</sup>. Personally identifiable data refers to the consumer data collected by a brand used to identify or contact an individual plus all of the additional facts that the brand stores in a database about that individual<sup>1</sup>. Privacy applies to all the data company collect (or have collected) about all customers and prospects, whether online or off. Marketers have the responsibility to carefully manage the privacy issue from both legalistic, ethical and customer experience perspectives<sup>1</sup>.

Privacy becomes a hot topic, with new cases and the situation arising every day around the globe like the explosion in social media use. A study of the Wall Street Journal about smartphone applications found that<sup>2</sup>:

1. over half transmitted the phone's unique ID to other companies, and nearly half transmitted the phone's location (usually to advertising companies);
2. five per cent sent personal details to outsiders;
3. impossible to delete cookies;
4. users cannot opt out.

### 7.3. Current Privacy Ordinance in Hong Kong

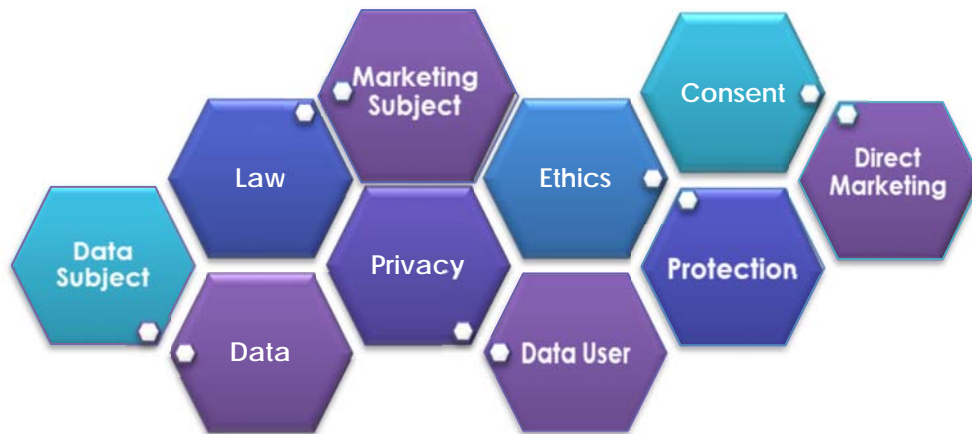
Direct marketing is a popular business practice. It usually involves the collection and use of personal data by a brand for direct marketing and CRM. In some cases, it also includes the provision of such data by that brand to another person or party for use in direct marketing. Under the above situation, compliance with the requirements of the Personal Data (Privacy) Ordinance (Cap 486, The Laws of Hong Kong) (the "Ordinance") is essential to any direct marketing activities in Hong Kong<sup>3</sup>. About the Ordinance, marketers have to recognise the key terms<sup>3,4</sup> and the privacy management programme<sup>5</sup>.

#### 7.3.1. Privacy Management Programme (PMP)

According to Office of the Privacy Commissioner for Personal Data, Privacy Management Programme (PMP) is served as a strategic framework to assist organisations in building a robust privacy infrastructure with the support of effective ongoing review and monitoring process to facilitate compliance with the requirements under the Ordinance<sup>5</sup>. It is not a requirement under the Ordinance, but it can demonstrate the commitment of organisations to good corporate governance<sup>5</sup>. It can also build trust with employees and customers through open and transparent information policies and practices<sup>5</sup>. The HKSAR Government and 39 organisations from the insurance, telecommunications and other sectors have pledged to implement PMP on 18 February 2014. List of these organisations could be found on the following website: <https://www.pcpd.org.hk/pmp/pledging.html>.

### 7.3.2. Key Terms used in the Ordinance

According to Part 1 (Section 2) of the Ordinance, there are some interpretations of terms<sup>4</sup>:



**Data** means any representation of information (including an expression of opinion) in any document and includes a **personal identifier**.

**Data subject**, in relation to **personal data**, means the individual who is the subject of the **data**.

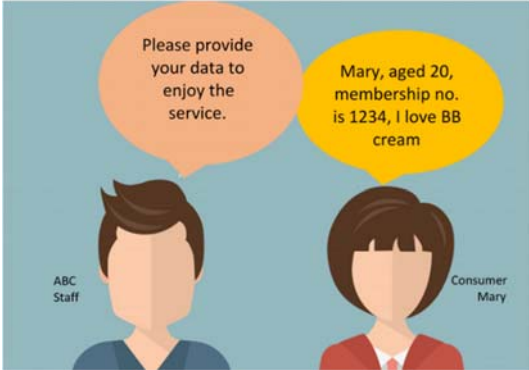
**Data user**, in relation to **personal data**, means a person who, either alone or jointly or in common with other persons, controls the collection, holding, processing or use of the **data**.

**Personal data** means any **data** –

- (a) relating directly or indirectly to a living individual;
- (b) from which it is practicable for the identity of the individual to be directly or indirectly ascertained; and
- (c) in a form in which access to or processing of the **data** is practicable.

**Personal identifier** means an identifier –

- (a) that is assigned to an individual by a **data user** for the purpose of the operations of the user; and
- (b) that uniquely identifies that individual in relation to the **data user**, but does not include an individual's name used to identify that individual.



**Data user:** ABC Staff

**Data Subject:** Mary

**Personal data:** all data provided by or related to Mary (name, age, membership number, and product preference)

**Personal identifier:** membership number in this case

About the use of personal data in direct marketing and provision of personal data for use in direct marketing, there are some specific key terms (Part 6A, Division 1, Section 35A of the Ordinance)<sup>3, 4</sup>:

**Consent** denotes a **data subject's** agreement to the use of **personal data** in **direct marketing** or the provision of **personal data** for use in **direct marketing**. It includes an indication of no objection to the use or provision.

"**Consent**" cannot be inferred from data subject's non-response. Data subject concerned must have **explicitly** indicated that he/she did not object to the use and/or provision of his/her personal data to another for use in direct marketing.

- ✓ Data subject replied "I am interested to know more about your promotion, please send me more the information to the address at XYZ."
- ✗ Data subject replied "I will think about your promotion".

**Direct marketing** refers to –

- (a) the offering, or advertising of the availability, of goods, facilities or services; or
- (b) the solicitation of donations or contributions for charitable, cultural, philanthropic, recreational, political or other purposes,

through **direct marketing means**.

"**Direct Marketing**" does **not include unsolicited** business electronic messages sent to telephones, fax machines, or email addresses **without addressing to specific persons** by name and person-to-person calls being made to phone numbers randomly generated.

- ✓ A direct mail is sent to the address of an opted-in customer – Mary.
- ✗ A marketing cold call is made to an unidentified owner of a particular telephone number.

**Direct marketing means** is defined to mean –

- (a) sending information or goods, addressed to specific persons by name, by mail, fax, electronic mail or other means of communication; or
- (b) making telephone calls to specific persons.



**Marketing subject** is defined to mean –

- (c) any goods, facility or service offered, or the availability of which is advertised; or
- (d) any purpose for which donations or contributions are solicited.

The description of the **classes of marketing subjects** should be **specific**, making reference to the **distinctive features** of the goods, facilities or services so that it is **practicable** for the customers to ascertain the goods, facilities or services to be marketed with a reasonable degree of certainty.

- ✓ Discount offers in relation to carwash services provided by Dinosaur Company.
- ✗ Promotional offers provided by Dragon Company.

**Permitted class of marketing subjects** means a class of **marketing subjects** in relation to which a **data subject** has provided his/her **consent** to the **data user** for the use or provision to another person for the use of his/her **personal data** in **direct marketing**.

**Permitted class of persons** means the class of persons in relation to whom a **data subject** has provided his/her **consent** to the **data user** to provide his/her **personal data** for use in **direct marketing**.

**Permitted kind of personal data** means the specific type of **personal data** in relation to which a **data subject** has given his/her **consent** to the **data user** for use or provision to another person for use in **direct marketing**.

**Response channel**: is the means of communication provided by a **data user** for a **data subject** to indicate his/her **consent** to the intended use or provision for use of his/her **personal data**.

Examples include:

- A telephone hotline\*
- A facsimile number
- A designated email account
- An online facility to allow data subject to subscribe or unsubscribe
- A specific address to collect written response from the data subject.
- A designed person to handle request from the data subject through the above or other means\*

\* Where telephone communication is involved, it is advisable for data users to record the communication. Data users should also remind data subjects that the telephone communication between would be recorded before the recording.

\*\* Where the consent to be sought from a data subject is for the **provision of his/her to another person for use in direct marketing**, a data user can only elect a response channel which enables the data subject's consent to be made **in writing**. This arrangement is necessary for complying with Division 3 of Part VIA of the Ordinance which specifically requires that such consent has to be communicated in writing.

**Figure 7-1 Game Corner****Instruction: Use a tick to identify “Valid Consent” cases**

Cases	Valid Consent
1. An oral reply from the data subject: “okay, please send me the promotional information to my email address at XXX.”	
2. The data subject doesn’t have any response to a direct marketing solicitation by email.	
3. The data subject returns a blank agreement to the data user - no indication about receiving direct marketing materials, no signature and not dated.	
4. The data subject doesn’t indicate an objection to receiving direct marketing information in an agreement but signed and returned to the data user.	

**Figure 7-2 Game Corner****Instruction: Use a tick to identify “Direct Marketing” cases**

Cases	Direct Marketing Cases
5. A service representative approaches its existing opted-in customers by telephone about the latest facial care services. Each customer is greeted as “Mr. XXX or Ms. YYY” at the beginning of the conversation.	
6. A marketing SMS is sent from CarCar Company to its members about the upcoming promotional offer at Christmas.	
7. A direct mail was sent to an address without stating the name of the occupant.	
8. A marketing Whatsapp message was sent to a mobile phone number of an unidentified owner.	
9. A customer service manager introduces financial products to a customer face-to-face at the branch.	

**Figure 7-3 Game Corner****Instruction: Use a tick to identify “Acceptable Descriptions of Marketing Subjects” cases**

Cases	Acceptable Marketing Subjects
10. Promotional offers provided by CarCar Company	
11. Promotional offers in relation to facial massage services offered by CarCar Company	
12. Healthcare products and services offered by CarCar Company	
13. All goods and services offered by CarCar Company	

**Figure 7-4 Game Corner*****Instruction: Find out the “Permitted Class of Marketing Subjects”***

Cases	Permitted Class of Marketing Subjects
14. A data subject has given consent to allow a data user to use her personal data for direct marketing of (a) cosmetic products, (b) skincare services, and (c) nail care services, but no indication to receive (d) hair care services.	
15. A data subject has refused to receive information about (a) fashion and accessories, but he/she has given consent to allow a data user to receive promotional information about (b) food and grocery, (c) baby products, and (d) home appliance products.	

**Figure 7-5 Game Corner*****Instruction: Find out the “Permitted Class of Persons”***

Cases	Permitted Class of Persons
16. A data subject has given consent to CarCar Company to provide her personal data to (a) healthcare services companies, but she refuses to provide her personal data to (b) financial services companies.	
17. A data subject has given consent to CarCar Company to provide her personal data to (a) entertainment service companies, but she refuses to provide her personal data to (b) banking services companies.	

**Figure 7-6 Game Corner*****Instruction: Find out the “Permitted Kind of Personal Data”***

Cases	Permitted Kind of Personal Data
18. A data subject has given consent to use her (a) phone number and (b) email address to CarCar Company for direct marketing purpose. She agrees to provide her (c) age group information but refuses CarCar Company to use it for direct marketing purposes.	
19. A data subject has given consent to use her (a) age group and (b) residential address to CarCar Company for direct marketing purpose. She agrees to provide her (c) contact information (including phone number and email address) but refuses CarCar Company to use it for direct marketing purposes.	

## 7.4. Obtaining Consent: Opt-in vs. Opt-out

When asking for consent from consumers, brands could either use opt-in or opt-out statement. The conditions of these two policies are different, and the marketing actions to be taken are also varied. The following table summarised the above issues:

**Figure 7-7 Marketing Actions Regarding Opt-in and Opt-out Policies**

	Opt-in Policy	Opt-out Policy
<b>Conditions</b>	If a customer did not make choices (blank choice), the company must treat his response as "no" (i.e. refuse or consent is not given).	If a customer did not make choices (blank choice), a company might treat his response as "yes" (i.e. consent is given, okay to contact)
<b>Marketing Actions</b>	Marketing actions should only <b>include those who answered YES</b> .	Marketing actions could only <b>exclude those who said NOT to contact</b> .

### Sample of Opt-in Statement

**I want to receive promotional information from ABC Company.**

☐ Yes

☐ No




Jenny

Customer's Signature

Name: Jenny

Date: 1 Sep 2019

**Figure 7-8 Responses to Opt-in Statement**

Consent	Refuse	Implied as "Refuse"
 <ul style="list-style-type: none"> <li>• YES = I want to...</li> <li>• Consent is given to the provision and use of personal data.</li> <li>• Direct marketing could be done.</li> </ul>	 <ul style="list-style-type: none"> <li>• NO = I don't want to...</li> <li>• Consent is not given (or Refuse) to the provision and use of personal data.</li> <li>• Direct marketing could <u>not</u> be done.</li> </ul>	 <ul style="list-style-type: none"> <li>• Blank = Empty cell</li> <li>• <u>Implied</u> that consent is not given to the provision and use of personal data.</li> <li>• Direct marketing could <u>not</u> be done.</li> </ul>

## Sample of Opt-out Statement

I do not want to receive promotional information from ABC Company.

☐ Yes

☐ No

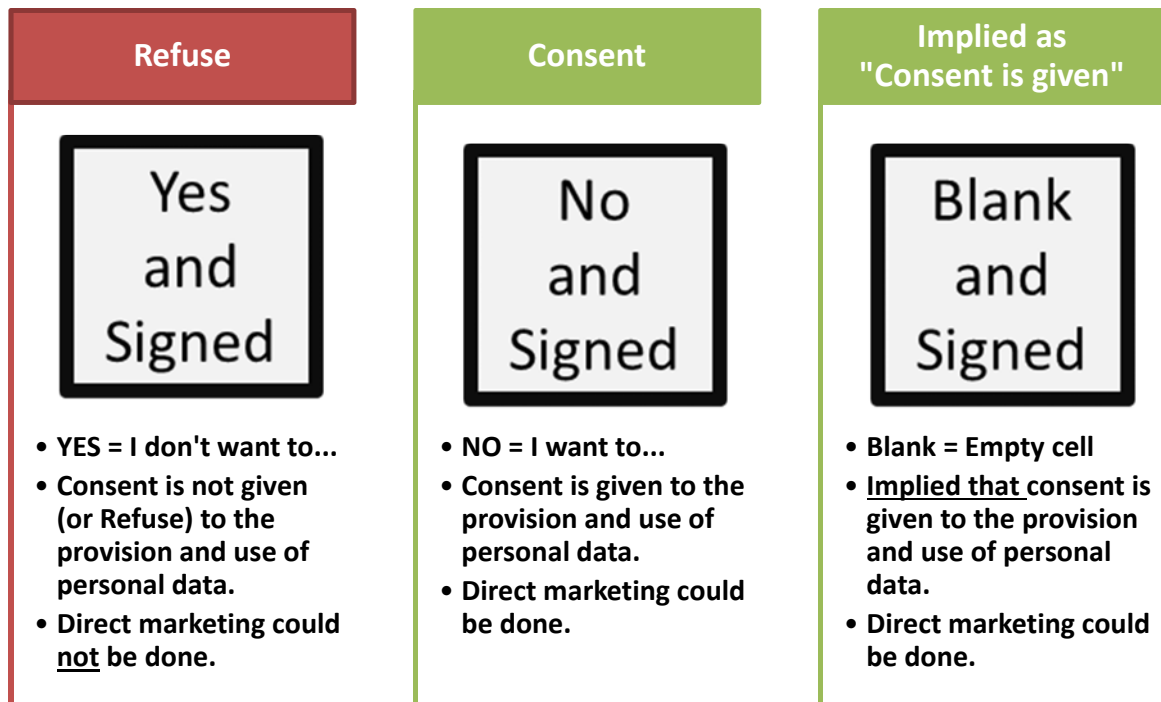
Jenny

Customer's Signature

Name: Jenny

Date: 1 Sep 2019

Figure 7-9 Responses to Opt-out Statement



#### 7.4.1. Ethical Corner

Which approach shall we use, opt-in or opt-out statement? Which one brings the greatest benefits to the marketers? Which one brings the greatest benefits to the consumers? Which one has a higher ethical standard? Also, is it good to bundle all the terms and requests together? Is it good for the company? Is it good for the consumers? Which one has a higher ethical standard?

Figure 7-10 Ethical Issues about "Choices"



## Example 7-1 Bundled Opt-in Statement

1. *We, ABC Company, intend to use your personal data for direct marketing.*
2. *We may not use your personal data unless we have received your consent.*
3. *Please check this box ☐ to indicate your consent that we can use all of the following personal data for direct marketing:*
  - *Name*
  - *Residential address*
  - *Mobile phone number*
  - *Email address*
4. *Please check this box ☐ to indicate your consent that we can use all of the following contact methods for direct marketing:*
  - *Email*
  - *Phone call*
  - *SMS*
  - *Mail*
5. *Please check this box ☐ provided to indicate your consent that we can promote all of the following marketing subjects in direct marketing:*
  - *Facial care products*
  - *Healthcare services*

*Please sign below to confirm that you have read and agreed to all the terms and conditions printed on the form, as well as your consent to the provision and use of personal data for direct marketing.*

\_\_\_\_\_  
*Customer's Signature*

*Name:*

*Date:*

**Example 7-2 Unbundled Opt-in Statement (Paper Version)<sup>3</sup>**

1. *We, ABC Company, intend to use your personal data for direct marketing.*
2. *We may not use your personal data unless we have received your consent.*
3. *Please check the box provided to indicate your consent that we can use the personal data for direct marketing:*
  - ☐ *Name*
  - ☐ *Residential address*
  - ☐ *Mobile phone number*
  - ☐ *Email address*
4. *Please check the box provided to indicate your consent that we can use the contact methods for direct marketing:*
  - ☐ *Email*
  - ☐ *Phone call*
  - ☐ *SMS*
  - ☐ *Mail*
5. *Please check the box provided to indicate your consent that we can promote the marketing subjects in direct marketing:*
  - ☐ *Facial care products*
  - ☐ *Healthcare services*

*Please sign below to confirm that you have read and agreed to all the terms and conditions printed on the form, as well as your consent to the provision and use of personal data for direct marketing.*

\_\_\_\_\_  
*Customer's Signature*

*Name:*

*Date:*

Example 7-3 Unbundled Opt-out Statement (Paper Version)<sup>3</sup>

1. *We, ABC Company, intend to use your personal data for direct marketing.*
2. *We may not use your personal data unless we have received your consent.*
3. *Please cross the box provided to indicate your refusal that we use the personal data for direct marketing:*
  - ☐ *Name*
  - ☐ *Residential address*
  - ☐ *Mobile phone number*
  - ☐ *Email address*
4. *Please cross the box provided to indicate your refusal that we use the contact methods for direct marketing:*
  - ☐ *Email*
  - ☐ *Phone call*
  - ☐ *SMS*
  - ☐ *Mail*
5. *Please cross the box provided to indicate your refusal that we promote the marketing subjects in direct marketing:*
  - ☐ *Facial care products*
  - ☐ *Healthcare services*

*Please sign below to confirm that you have read and agreed to all the terms and conditions printed on the form, as well as your decision to the provision and use of personal data for direct marketing.*

\_\_\_\_\_  
*Customer's Signature*

*Name:*

*Date:*

Example 7-4 Unbundled Opt-in Statement (Online Version)<sup>3</sup>

1. *We, ABC Company, intend to use your personal data for direct marketing.*
2. *We may not use your personal data unless we have received your consent.*
3. *Please check the box provided to indicate your consent that we can use the personal data for direct marketing:*
  - ☐ *Name*
  - ☐ *Residential address*
  - ☐ *Mobile phone number*
  - ☐ *Email address*
4. *Please check the box provided to indicate your consent that we can use the contact methods for direct marketing:*
  - ☐ *Email*
  - ☐ *Phone call*
  - ☐ *SMS*
  - ☐ *Mail*
5. *Please check the box provided to indicate your consent that we can promote the marketing subjects in direct marketing:*
  - ☐ *Facial care products*
  - ☐ *Healthcare services*

*Please press the “**SUBMIT**” button below to confirm that you have read and agreed to all the terms and conditions on the form, as well as your consent to the provision and use of personal data for direct marketing.*

**SUBMIT**

**Remarks for the confirmation of consent:** The “Name” shall be recorded by the (membership/contest) form in the previous page, and the “date and time” will be recorded by the system automatically. About “signature”, it is replaced by the “submit” button.

## 7.5. Five Elements of Privacy Statement

When a brand drafts a statement about consumer privacy, five principles have to be considered: Notice, Choice, Access and Accuracy, Security, and Oversight<sup>1</sup>.

Figure 7-11 Five Elements of Privacy Statement



### 7.5.1. Notice

**Rule #1:** Keep the policy simple and accurate about what data the brands collect, where they get it, why they need it, how they use it, and whom they let see it.

**Rule #2:** Create a very short statement that briefly summarises the company's privacy policies. The statement has to be placed in the touchpoints where the company collects customer information.

**Rule #3:** Make sure business partners (with whom the brands must share customer information in order to do business) have a privacy policy that is at least as stringent as the brand. The brand should include this requirement in the business contract in order to enhance the total customer experience.

**Rule #4:** Educate customers about what they should expect regarding the privacy of their personally identifiable information by using a common language. Do not use confusing language that no one understands.

Rule #1 Simple and Accurate

Rule #2 Short and Distributed

Rule #3 Align with Business Partners

Rule #4 Educate Customers

### 7.5.2. Choice

**Rule #1:** Allow customers to give consent or refuse (through opt-in or opt-out choice) to the provision and use of personal data in the ways an organisation has described in the opt-in or opt-out statement. Avoid inferring customers' choices.

**Rule #2:** Allow customers to complete the transaction no matter what they choose (agree or refuse giving permission). Honour the customers' decision over time and across the organisation. Such integrity can increase customers' trust towards the brand and may induce them to give more personal information and keep the relationship.

**Rule #3:** Ask for permission again upon any changes made in the privacy statement. Changes made, updated permission, and the permission date should be kept and stored in a database.

**Rule #4:** Allow customers to change their choices anytime and in all possible means.

Rule #1 Give customer choices

Rule #2 Allow to Complete Transaction

Rule #3 Update Permission

Rule #4 Allow to Change Choices

### 7.5.3. Access and Accuracy

**Rule #1:** Allow customers to access and review their own data, both online and offline.

**Rule #2:** Allow customers to correct their own data through either online or offline means in order to maintain the profile accurate and up-to-date at the least cost.

**Rule #3:** Place customers in the best position to keep profiles accurate and up to date. Those who update their profile and data periodically are investing their time in the relationships.

Rule #1 Allow Access  
and Review

Rule #2 Allow  
Correction

Rule #3 Place  
Customers in the Best  
Position

### 7.5.4. Security

**Rule #1:** Data in all databases is protected with a combination of a firewall, encryption and/or passwords over the Internet.

**Rule #2:** Having a statement clearly stated the customer information is safe from anyone with whom the company has not planned to share it.

Rule #1 Protected

Rule #2 Stated Clearly

### 7.5.5. Oversight

**Rule #1:** Give customers the option to contact an independent party if they feel their privacy rights have been abused.

**Rule #2:** Use well-known independent parties, e.g. BBBOnline Privacy Seal, TRUSTe, WebTrust.

Rule #1 Option to  
Contact Independent  
Parties

Rule #2 Use Well-  
known Parties

### 7.5.6. Examples of Quality (Online) Privacy Statements

It is difficult to find quality privacy statements covering the five stated elements. Some of them like Amazon.com and Visa have drafted easily understandable statement around most elements. However, the “oversight” element was not covered<sup>1</sup>. Companies like Intel, Kodak and HP have created fairly simple and understandable online privacy statements that cover the five elements. All carry a privacy seal. Also, all statements could be reached through a direct link on the home page<sup>1</sup>.

## 7.6. Chapter Summary

1. Privacy is an individual's right to have his/her personally identifiable data protected, at home and work.
2. Personally identifiable data refers to the consumer data that help organisations identify or contact an individual plus all of the additional facts that the brand stores in databases about that individual.
3. A marketing "cold call" to an unidentified owner of a particular phone number is not regarded as direct marketing under Cap 486 the Personal Data (Privacy) Ordinance.
4. There is a difference between opt-in and opt-out statement. Organisations should treat consumer decision as different.
5. There are five principles to draft privacy statement, including notice, choice, access and accuracy, security, and oversight.

## 7.7. Key Terms

**Consent** is defined as an indication of no objection to the use and provision of personal data for direct marketing<sup>3</sup>.

**Direct marketing** is the offering, or advertising of the availability, of goods, facilities or services; or the solicitation of donations or contributions for charitable, cultural, philanthropic, recreational, political, or other purposes<sup>3</sup>.

**Direct marketing means** is defined as sending information or goods, addressed to a specific person by name, by mail, fax, electronic mail or other means of communication; or making telephone calls to specific person<sup>3</sup>.

**Marketing subject** refers to any goods, facility or service offered, or the availability of which is advertised; or any purpose for which donations or contributions are solicited<sup>3</sup>.

**Permitted class of marketing subjects** means a class of marketing subjects in relation to which a data subject has provided his/her consent to the data user for the use or provision to another person for the use of his /her personal data in direct marketing<sup>3</sup>.

**Permitted class of persons** means the class of persons in relation to whom a data subject has provided his/her consent to the data user to provide his/her personal data for use in direct marketing<sup>3</sup>.

**Permitted kind of personal data** means the specific type of personal data (e.g. address, telephone number) in relation to which a data subject has given his/her consent to the data user for use or provision to another person for use in direct marketing<sup>3</sup>.

**Personally identifiable data** refers to consumer data that help organisations identify or contact an individual plus all of the additional facts that brand stores about that individual<sup>1</sup>.

**Privacy** is an individual's right to have his/her personally identifiable data protected, at home and at work<sup>1</sup>.

**Privacy management programme** is served as a strategic framework to assist organisations in building a robust privacy infrastructure with the support of effective ongoing review and monitoring process to facilitate compliance with the requirements under the Personal Data (Privacy) Ordinance<sup>5</sup>.

**Response channel** is the means of communication provided by a data user for a data subject to indicate his/her consent to the intended use or the provision for use of his/her personal data<sup>3</sup>.

## 7.8. Concept Check Quiz

1. Define privacy and state any two privacy-related ethical dilemmas.
2. State the four rules about Notice for drafting a privacy statement.
3. Name any two independent parties for “Oversight” when drafting a privacy statement.
4. Describe the differences between opt-in and opt-out policies.
5. Define “consent” under the Personal Data (Privacy) Ordinance (Cap 486, The Laws of Hong Kong) and then provide one example to illustrate a valid consent.
6. Define “permitted class of marketing subjects” under the Personal Data (Privacy) Ordinance (Cap 486, The Laws of Hong Kong) and then provide one example to illustrate a permitted class of marketing subjects.
7. Give one valid direct marketing example and one invalid direct marketing example.
8. A data subject has given consent to J&J Company to provide her personal data to (a) toys, and education companies and (b) financial services companies but refuse to provide her data to any beauty service companies for use in direct marketing. Identify the permitted class of persons of the above case under the Personal Data (Privacy) Ordinance.

## 7.9. Concept Challenge Quiz

1. Fujifilm wants to recruit its customers to be the members of “Instax”. It decides to collect all possible data in order to generate a complete customer profile in the membership form and then offer customers the best experience with Fujifilm. Discuss possible ethical issues raised from this marketing decision, and then make a suggestion for Fujifilm.

**Hint:** Answers have to identify a relevant ethical dilemma and then make a relevant suggestion for Fujifilm.

2. :CHOCOOLATE is one of the brand lines under I.T.. You have drafted an entry form for its competition to recruit youngsters as its customers. Draft appropriate opt-in statement for the data you are going to collect and to use in direct marketing.

**Hint:** Answers should align with the data collected via competition form. Design a similar statement sim the example in this chapter.

## 7.10. References

1. Kincaid, J. W. (2003). *Customer relationship management: getting it right!*. Upper Saddle River, New Jersey: Prentice Hall.
2. Thurm S. & Kane, Y. I. (2010, December 17). Your apps are watching you. *Wall Street Journal*, C14.
3. Office of the Privacy Commissioner for Personal Data, Hong Kong. (2013 January). *New guidance on direct marketing*. Retrieved from [http://www.pcpd.org.hk/english/publications/files/GN\\_DM\\_e.pdf](http://www.pcpd.org.hk/english/publications/files/GN_DM_e.pdf)
4. Personal Data (Privacy) Ordinance, Cap 486. (2013). Section 35A. Retrieved from [http://www.legislation.gov.hk/blis\\_pdf.nsf/6799165D2FEE3FA94825755E0033E532/B4DF8B4125C4214D482575EF000EC5FF/\\$FILE/CAP\\_486\\_e\\_b5.pdf](http://www.legislation.gov.hk/blis_pdf.nsf/6799165D2FEE3FA94825755E0033E532/B4DF8B4125C4214D482575EF000EC5FF/$FILE/CAP_486_e_b5.pdf)
5. Office of the Privacy Commissioner for Personal Data, Hong Kong. (2014 February). *Privacy management programme: a best practice guide*. Retrieved from [https://www.pcpd.org.hk/pmp/files/PMP\\_guide\\_e.pdf](https://www.pcpd.org.hk/pmp/files/PMP_guide_e.pdf)

## Chapter 8 Business Disciplines and CRM Outcomes

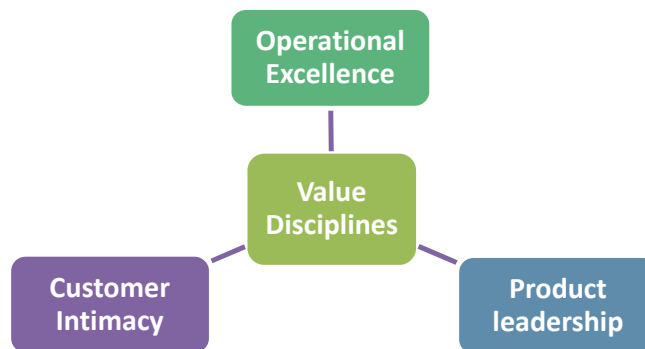
### 8.1. Chapter Objectives

- Describe the three value disciplines for a business.
- Recognise the best value discipline and business context for CRM.
- Describe the features and outcomes of successful CRM.

### 8.2. Three Value Disciplines

There are usually three value disciplines adopted by companies. The value disciplines describe what makes organisations distinctive in their markets, why customers prefer them over other brands, and what is required in terms of competencies and key resources in determining their positions<sup>1</sup>.

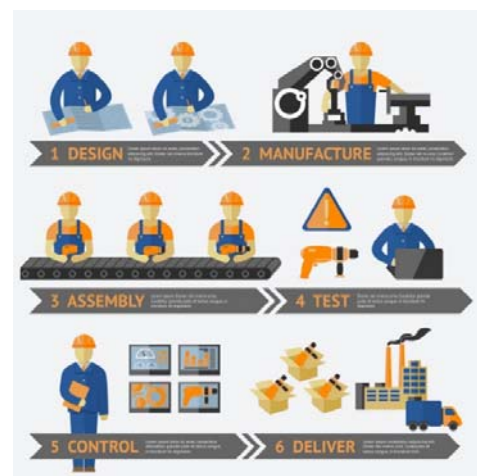
**Figure 8-1 Three Value Disciplines**



#### 8.2.1. Operational Excellence

Companies adopting operational excellence usually find a combination of price, quality, and ease of purchase that none of their competitors is capable of matching<sup>1</sup>. They usually offer (1) guaranteed low price; (2) problem-free service; and (3) good quality products<sup>1</sup>. These companies generally have the following ten features<sup>1</sup>:

1. The business model focuses on cost leadership.
2. Production is standardised and automated.
3. Overhead costs are low.
4. Products are purchased at low prices and in large volumes.
5. Management steers activities tightly and in a centralised manner.
6. Strict norms are applied.
7. Accommodation is austere.
8. Employees maintain a high level of productivity.
9. Employees are rewarded for their efficiency at work.
10. Waste is despised.



### 8.2.2. Product Leadership

Companies adopting product leadership usually focus on innovation and renewal to surprise customers with the newest and the best products<sup>1</sup>. These companies have the following ten characteristics<sup>1</sup>:

1. Creative, inspired and have many ideas.
2. Employees are like-minded people, rather than well experienced in a particular industry.
3. Able to realise the market.
4. Able to work on shortening design cycles.
5. Accept mistakes and dare to take risks.
6. Able to counterbalance the failure of certain innovations.
7. Good ideas are recognised and then expanded to develop truly new products.
8. React and make decisions quickly.
9. Acknowledge and adopt talented people in challenging projects.
10. Avoid every type of bureaucracy.



### 8.2.3. Customer Intimacy

Companies adopting customer intimacy discipline emphasise the maintenance of relationships with customers and their lifetime values<sup>1</sup>. Wide range of products and services are continually adapted to customers' wishes, without charging excessively high prices<sup>1</sup>. The features of these companies are<sup>1</sup>:

1. Focus on developing the desired customer base.
2. Focus on customer lifetime value.
3. Position company as a partner for customers and take their problems off their hands.
4. Offer customers a total solution to perform better.
5. Attune to customers' needs.
6. Supply products and services from a broader perspective.
7. Supply reliable and tried-and-tested, rather than the newest, products and services.
8. Decision authority is delegated to frontline employees.
9. Frontline employees were given a high degree of freedom to capitalise on customer's wishes.
10. Employees are rewarded for keeping and satisfying customers.



Figure 8-2 Game Corner

*Instruction: Find out the value discipline for the following cases*

Cases	Value Discipline
1. McDonald's	
2. Nike	
3. Cathay Pacific	
4. Dell	
5. Swatch	
6. Ritz Carlton	
7. Ford	
8. Bang & Olufsen	
9. HK Disneyland	
10. Mercedes-Benz	

Figure 8-3 Game Corner

*Instruction: Find out the value discipline for the following case*

Cases
<p>IKEA is the world's largest furniture retailer that designs and sells ready-to-assemble furniture (such as beds, chairs, and desks), appliances and home accessories. It offers products at prices so low that as many people as possible will be able to afford them and competitors are difficult to follow. It is the heart of everything IKEA does, from product development and purchases to selling. IKEA is known for its attention to cost control, standardised production, operational details, continuous product development and corporate attributes that allowed IKEA to lower its prices by an average of two to three per cent over the decade to 2010 during a period of global expansion. <b>Identify the <u>EXISTING</u> value discipline being adopted by IKEA and describe the <u>FOUR</u> characteristics of this discipline in relation to the case information above.</b></p>
<b>Discipline:</b>
1.
2.
3.
4.

### 8.2.4. The Best Value Discipline for CRM

The above three value disciplines could be generally categorised as offensive strategy or defensive strategy<sup>1</sup>.

**Figure 8-4 Offensive Strategy vs. Defensive Strategy<sup>1</sup>**

	Offensive Strategy	Defensive Strategy
<b>Objective</b>	<ul style="list-style-type: none"> <li>Customer switching</li> </ul>	<ul style="list-style-type: none"> <li>Customer commitment</li> </ul>
<b>Features</b>	<ul style="list-style-type: none"> <li>Capture market share</li> <li>Acquire new customers</li> <li>Strive to expand customer base</li> <li>Ride oneself quickly of any competition</li> </ul>	<ul style="list-style-type: none"> <li>Maintain and defend the position in the market</li> <li>Keep current customers</li> <li>Strive to sustain customer loyalty</li> <li>Build switching barriers</li> </ul>
<b>Primary Focus</b>	<ul style="list-style-type: none"> <li>Competitors</li> </ul>	<ul style="list-style-type: none"> <li>Customers</li> </ul>
<b>Measure of Success</b>	<ul style="list-style-type: none"> <li>Market share relative to the competition</li> </ul>	<ul style="list-style-type: none"> <li>Customer retention rate</li> <li>Customer defection rate</li> </ul>
<b>Value Disciplines</b>	<ul style="list-style-type: none"> <li>Operational Excellence</li> <li>Product Leadership</li> </ul>	<ul style="list-style-type: none"> <li>Customer Intimacy</li> </ul>



Among the above three value disciplines, customer intimacy best fits the CRM strategy. It has the following four distinctive features related to CRM<sup>1</sup>:

**Figure 8-5 Distinctive Features of Customer Intimacy**



Adopting all three disciplines is impossible, but it does not imply that an organisation could ignore the other two disciplines when adopting one in business. The best solution is to take the other two disciplines into account

### 8.3. Context of CRM Strategy

Context determines the applicability of a strategy and its success. Is the organisation more capable than others of actually developing individual relations with customers? Does this match with the opportunities in the market and external environment? CRM context could be separated into internal and external aspects.

#### 8.3.1. Internal Context

An organisation has to meet certain pre-conditions in order to develop a CRM strategy:

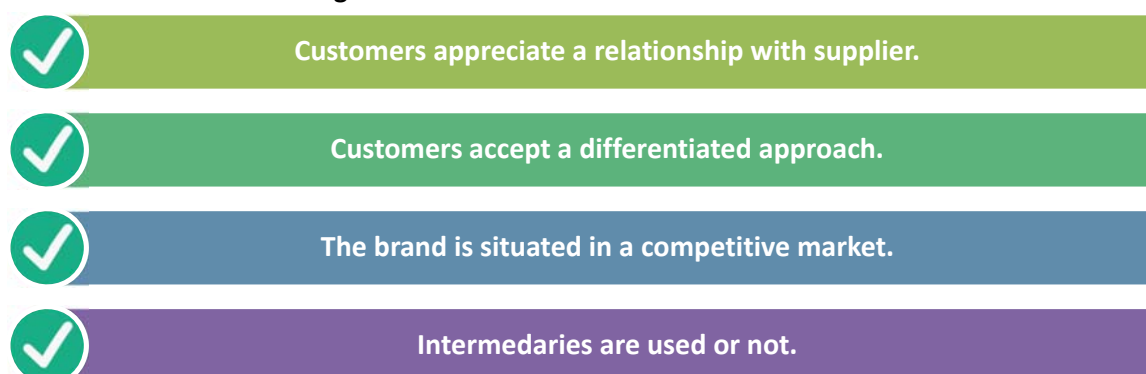
**Figure 8-6 Points to Note for Internal Context<sup>1</sup>**



#### 8.3.2. External Context

A CRM strategy must be in tune with the external environment, including customers, competition and distribution.

**Figure 8-7 Points to Note for External Context<sup>1</sup>**



## 8.4. Successful CRM

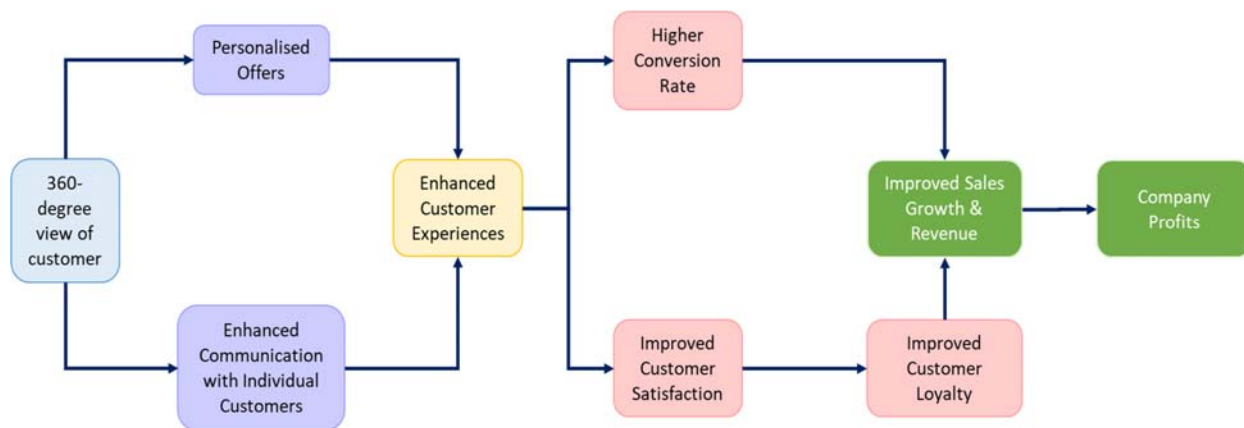
### 8.4.1. Company-related CRM Outcome - Profitability

When CRM is successfully implemented in an organisation, it should have the following results<sup>1</sup>:

1. The relationship between a customer and a brand is close, positive and two-sided, and both partners respect and are committed to the relationship.
2. The relationship can protect the brand from any action taken by the competition.
3. The relationship can lead to long-term competitive advantage, which is difficult to be imitated.
4. The relationship can prevent customers from succumbing to the temptation offered by the competition.
5. The relationship has a positive effect on profitability.

Achieving profitability is the ultimate objective of CRM while retaining customers is the way to meet this objective according to the service-profit chain. The sources of profitability include loyalty, satisfaction, value, and quality.

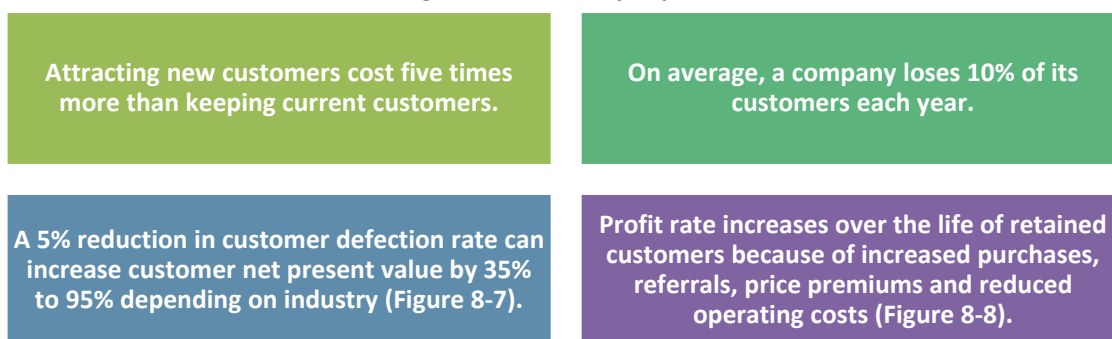
Figure 8-8 Sources of Company Profit

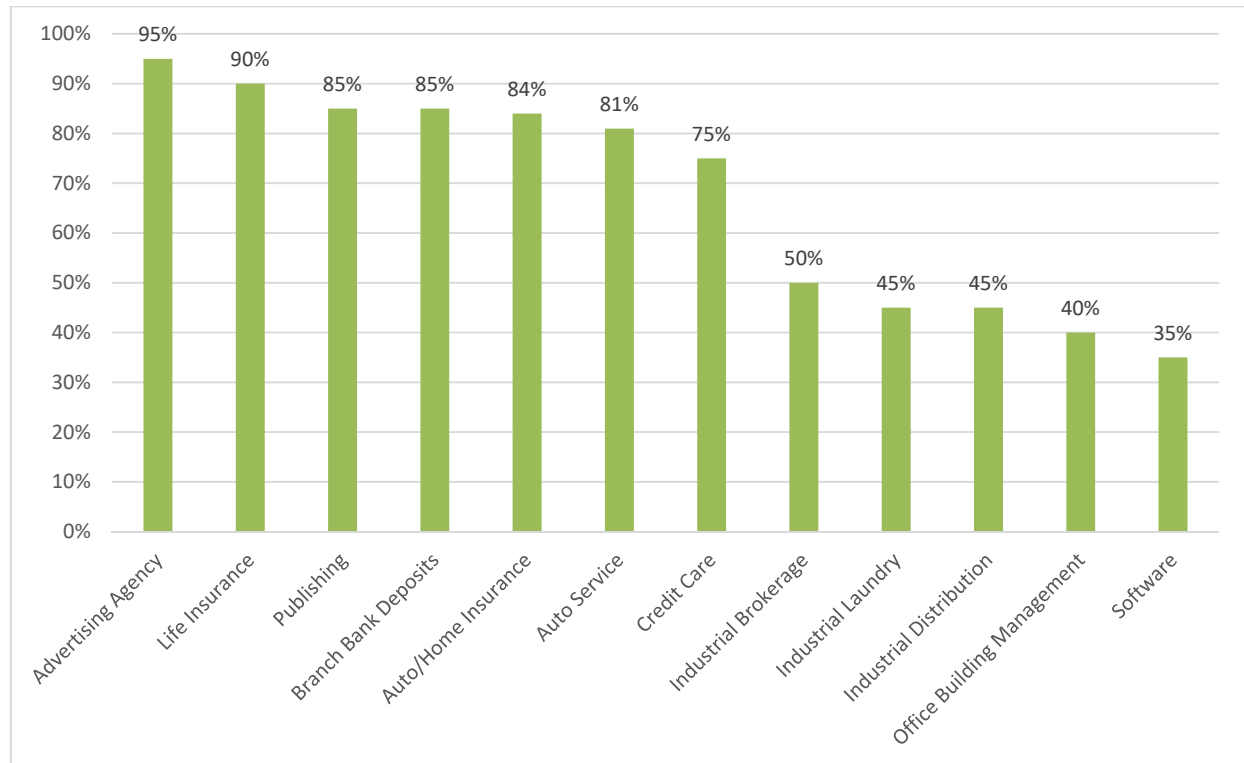
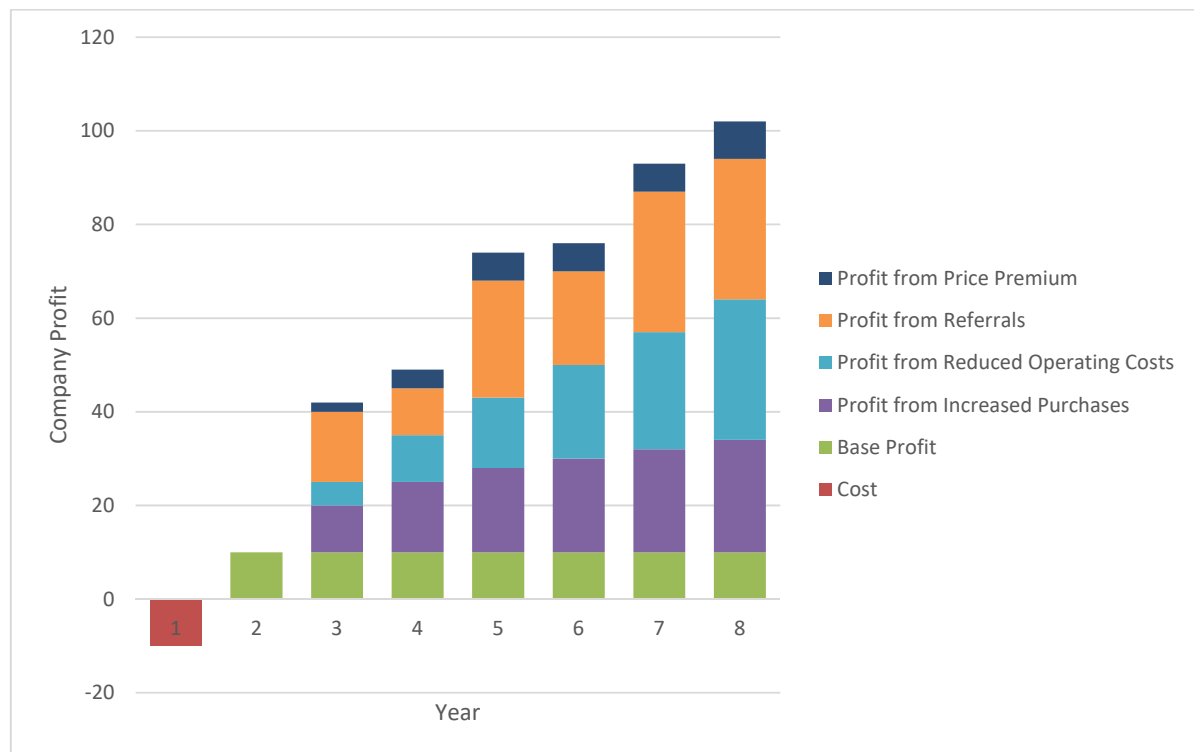


### 8.4.2. Customer-related CRM Outcome - Loyalty

Loyalty is a deeply held commitment to rebuy a product or re-patronize (visit again) a shop in the future despite situational influence and marketing efforts having the potential to cause switching behaviour<sup>1</sup>. About customer loyalty and retention, Reichheld found out four major issues<sup>1</sup>:

Figure 8-9 Four Loyalty Facts



**Figure 8-10 Effect of 5 Percent Reduction in Defection Rate on Customer Net Present Value<sup>4</sup>****Figure 8-11 Sources of Profit**

### 8.4.3. Customer-related CRM Outcome - Satisfaction

Satisfaction is a person's feeling of pleasure or disappointment resulting from comparing a product's perceived performance to expectation<sup>1</sup>. Customers usually have subjective perception towards a product of a brand after purchase. Customers, who have a positive perception towards a brand or have a stronger relationship with the brand, usually have positive feelings and perception towards the brand's products. Expectation results from past buying experience, friends' and associates' advice, marketers' and competitors' information and promises. Through comparing the perceived performance of a product with their expectation, customers may encounter three situations:

**Figure 8-12 Three Satisfaction Situations**

<b>Highly Satisfied</b>	<ul style="list-style-type: none"> <li>Perceived performance exceeds (&gt;) expectation</li> </ul>
<b>Satisfied</b>	<ul style="list-style-type: none"> <li>Perceived performance meets (=) expectation</li> </ul>
<b>Dissatisfied</b>	<ul style="list-style-type: none"> <li>Perceived performance falls short of (&lt;) expectation</li> </ul>

#### 8.4.3.1. Techniques for Measuring Satisfaction

Organisations are recommended to monitor customer satisfaction on a continuous basis and modify their marketing plans to suit customer needs. Usually, there are four techniques used to measure customer satisfaction<sup>1</sup>:

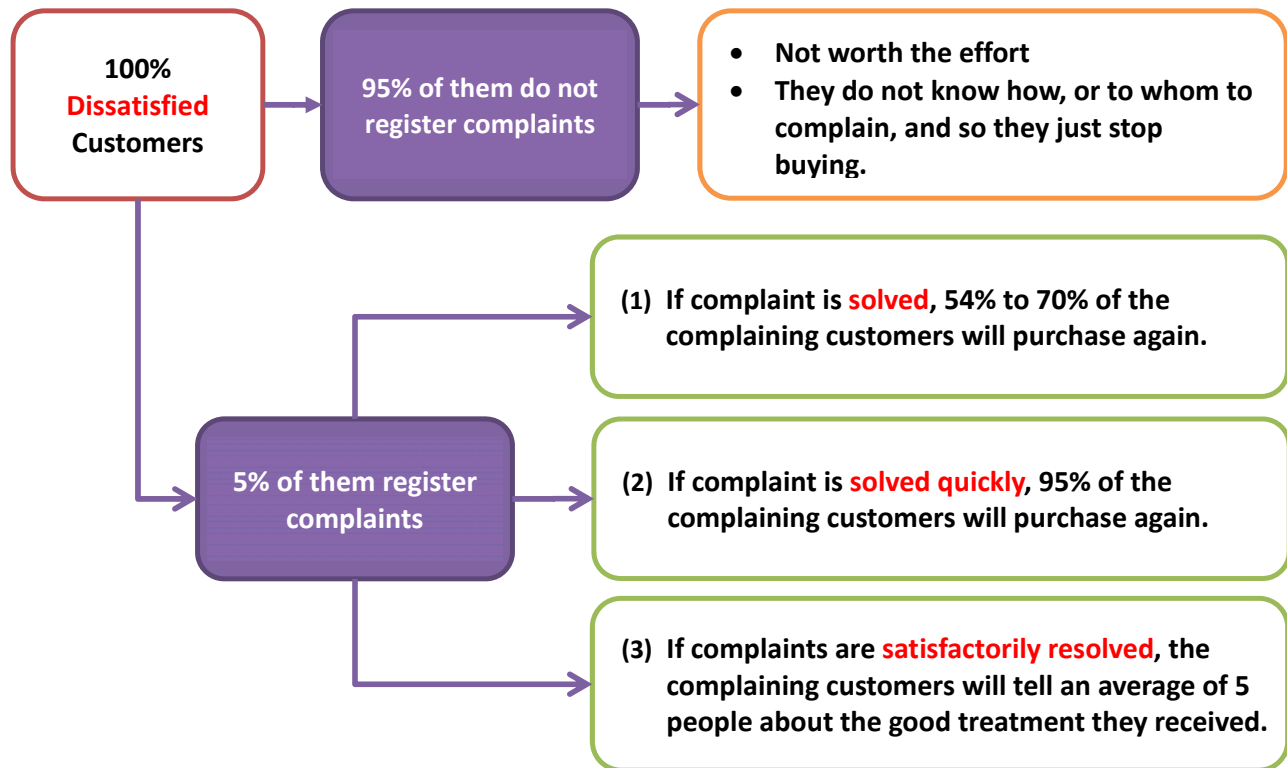
**Figure 8-13 Four Techniques for Measuring Customer Satisfaction**

<b>1. Periodic Surveys</b>	<ul style="list-style-type: none"> <li>Track satisfaction directly and include other questions like loyalty, repurchase intention, etc.</li> </ul>
<b>2. Customer Defection Rate</b>	<ul style="list-style-type: none"> <li>Contact customers who have stopped buying or switched to other brand and the related reasons.</li> </ul>
<b>3. Mystery Shoppers</b>	<ul style="list-style-type: none"> <li>Ask someone to pose as potential buyer and report on strong and weak points experienced in buying company's and competitors' products.</li> </ul>
<b>4. Monitor Competitors' Performance</b>	<ul style="list-style-type: none"> <li>Monitor competitors' performance in satisfying and keeping customers.</li> </ul>

### 8.4.3.2. Satisfaction and Complaints

Other than quality and value perception, complaining is a critical element that affects customer satisfaction. The relationships between complaint and satisfaction are as follows<sup>1</sup>:

Figure 8-14 Relationships between Complaint and Satisfaction



No matter how perfectly designed a marketing plan is, mistakes happen. Marketers could follow the following procedures for managing complaints and recovering customer goodwill<sup>2</sup>:

Figure 8-15 Procedures for Managing Complaints



#### 8.4.4. Integrated Effect of Loyalty and Satisfaction on Customer Behaviours

Depending on the magnitude of loyalty and intensity of satisfaction, customers usually behave in one of the following four basic ways<sup>8</sup>. Organisations have to manage all four types of behaviours and then take respective marketing or CRM actions to manage the relationship.

**Figure 8-16 Details of Four Customer Behaviours when Counting Both Satisfaction and Loyalty**

	Satisfaction	Loyalty	Behaviours
1. <b>Loyalist/ Apostle</b>	High	High	<ul style="list-style-type: none"> <li>• Staying</li> <li>• Supportive</li> </ul>
2. <b>Defector/ Terrorist</b>	Low to medium	Low to medium	<ul style="list-style-type: none"> <li>• Leaving or having left</li> <li>• Unhappy</li> </ul>
3. <b>Mercenary</b>	High	Low to medium	<ul style="list-style-type: none"> <li>• Coming and going</li> <li>• Low commitment</li> </ul>
4. <b>Hostage</b>	Low to medium	High	<ul style="list-style-type: none"> <li>• Unable to switch</li> <li>• Trapped</li> </ul>

### 8.5. Chapter Summary

1. The three value disciplines could be classified as an offensive strategy or defensive strategy.
2. It is possible and feasible to adopt all three value disciplines in business, but there should be one value discipline dominates the operation and strategy. The other two value disciplines should only take a supporting role.
3. When designing a CRM strategy, both internal and external context should be considered.
4. The key outcomes of CRM include profitability, loyalty, and satisfaction. Firms should not only focus on keeping current customers, as attracting new customers is also important to some offensive purposes.
5. When considering both satisfaction and loyalty, there are four types of customer behaviours: loyalist/apostle, defector/terrorist, mercenary, and hostage. Marketers could put more effort to develop loyalist, but those defectors, mercenary, and hostages should also be monitored and managed.

### 8.6. Key Terms

**Customer Intimacy** discipline focus on building up relationships with customers and their lifetime values<sup>1</sup>.

**Product Leadership** focuses on innovation and renewal to surprise customers with the newest and the best products<sup>1</sup>.

**Operational Excellence** refers to the combination of price, quality, and ease of purchase that none of their competitors is capable of matching<sup>1</sup>.

**Satisfaction** is a person's feeling of pleasure or disappointment resulting from comparing a product's perceived performance to expectation<sup>1</sup>.

## 8.7. Concept Check Quiz

1. Define operational excellence.
2. Describe product leadership.
3. Describe the characteristics of a company adopting customer intimacy as the value discipline.
4. Describe the differences between an offensive strategy and defensive strategy.
5. Describe the preconditions of CRM internal and external context.
6. Describe the features of a successful CRM strategy for a company.
7. A successful CRM strategy can strengthen the relationship between a brand and its customers, and that could further increase profitability. Other than the base profit, describe the other four sources of profit.
8. Define loyalty and describe the four loyalty issues identified by Reichheld.
9. Describe the three satisfaction situations.
10. Describe any two techniques for measuring customer satisfaction.
11. Describe the relationships between complaints and satisfaction.
12. Describe the five procedures for managing customer complaints.
13. Describe the differences between “mercenary” and “hostage”.

## 8.8. Concept Challenge Quiz

1. Fujifilm is considering adopting one value discipline in business. Suggest with justification one appropriate value discipline for Fujifilm.

**Hint:** There are two appropriate value disciplines for consideration. Answers could propose either one and then provide relevant reasons to justify the suggestion.

2. The sales volume and amount of :CHOCOOLATE are decreasing. :CHOCOOLATE decides to adopt a CRM strategy to rescue this problem. Comment on this decision and then remind :CHOCOOLATE some key internal issues when adopting a CRM strategy.

**Hint:** Answers should first discuss the problem of this decision in relation to the internal context of CRM strategy.

3. Jasmine joined a one-month yoga course at See See Fitness and also a two-week fitness training programme at Candy Fitness. She feels happy with their services, but she doesn't have any incentives to stay in any one of these fitness centres at this moment. She decides to try another yoga course at Bubble Physical and another fitness course at Jelly Sports. Describe the loyalty behaviour of Jasmine and then propose relevant strategies to keep Jasmine in See See Fitness.

**Hint:** Answers should focus on the proper loyalty behaviour and describe properly the satisfaction and loyalty levels, as well as related behaviours. For the strategies to keep her commitment and loyalty, any relevant loyalty and retention or CRM strategies could be used (explanation and examples should be given in detail). Refer the notes of Chapter 9 “Strategies for CRM” for the answers.

## 8.9. References

1. Peelen E. & Beltman R. (2013). *Customer Relationship Management* (2<sup>nd</sup> ed.). Harlow, England: Pearson.
2. Almotairi, M. (2008). CRM success factors taxonomy. *European and Mediterranean Conference on Information Systems 2008*.

## 9.1. Chapter Objectives

- Apply relevant CRM strategies for consumers at different relationship stages.

## 9.2. CRM Strategy Cycle

Christopher et al. (1991) introduced the loyalty ladder, which shows the progression of customer loyalty from suspects to advocates. However, it is difficult to maintain 100% retention among the customers, clients and advocates. Some of them may leave the relationship, and they are called defectors. In the CRM context, different types of strategies have to be used for consumers at different relationship stages<sup>1</sup>.

Figure 9-1 Customer Loyalty Ladder

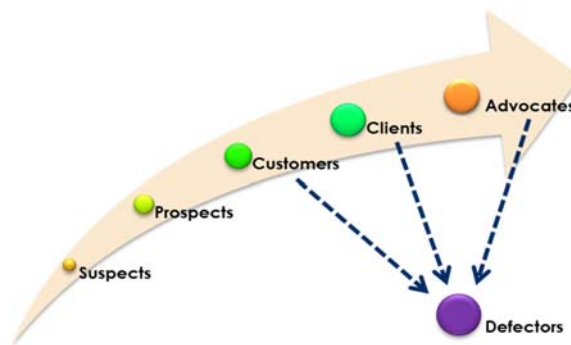


Figure 9-2 CRM Strategy Cycle and Relationship Stages

CRM Strategy Cycle	Acquisition & Development		Retention & Loyalty			Win-back
Relationship Stages	Suspects	Prospects	Customers	Clients	Advocates	Defectors
Feature	Consumers who come across company's promotion	Consumers who are interested in company's promotion	Consumers who purchase company's product or service	Customers who feel satisfied and repurchase	Clients who spread positive word-of-mouth to the others	Customers/ Clients/ Advocates who feel dissatisfied and leave the relationship
Objective	Generate their interest and desire to try/ purchase the products	Encourage their intention to purchase	Encourage them to come back and repurchase	Identify the motivators of repurchase and encourage them to generate positive WOM	Provide something special and different to sustain their loyalty and recommend action behaviours	Identify the reasons for defection and manage accordingly

### 9.2.1. Acquisition and Development Strategies

Acquisition and development strategies are used to manage the relationship with suspects and prospects. **Suspects** are those consumers who come across the company's promotion<sup>2</sup>. **Prospects** are those consumers who are interested in the company's promotion<sup>2</sup>. There are two strategies for these two relationship stages.

Figure 9-3 Acquisition and Development Strategies<sup>1,4</sup>



#### 1. Recruiting suspects

Organisations can recruit suspects through various communication channels and campaigns. Omnichannel marketing takes a significant role here to manage communication channels to recruit potential suspects.

#### 2. Segmenting and targeting potential prospects

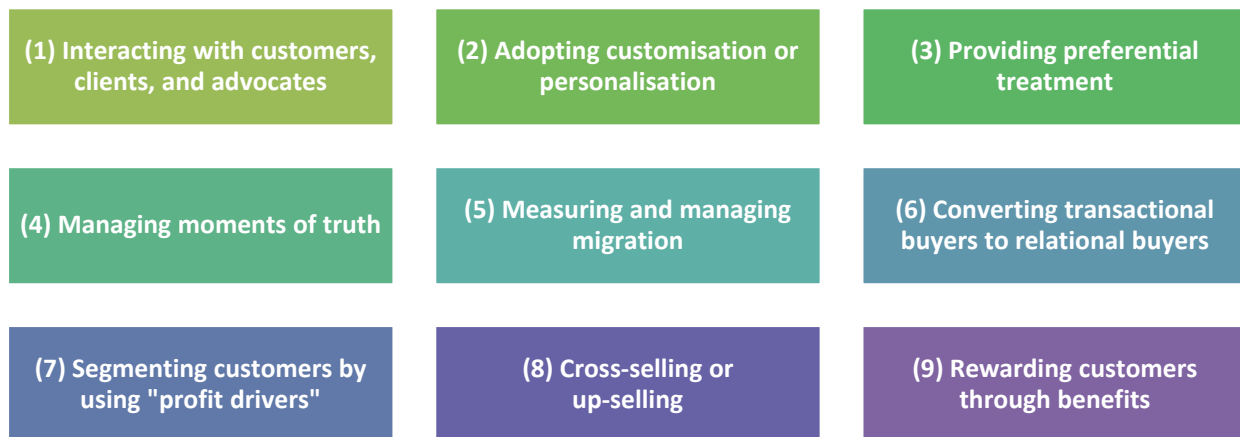
By using advertisements with response features, organisations could convert suspects into prospects through generating their interests to the brand and products. Organisations can then segment these prospects into different groups by using different segmentation criteria and variables. Based on their background, organisations should motivate them to make a purchase to become customers through appropriate differentiation strategies.

### 9.2.2. Retention and Loyalty Strategies

Retention and loyalty strategies are used to manage and develop a relationship with customers, clients and advocates. **Customers** are those prospects who have made purchase<sup>2</sup>. Strategies could focus on identifying motivators to encourage them to come back and repurchase.

Clients are those customers who felt satisfied with repeated purchases<sup>2</sup>. Organisations should encourage them to keep purchasing from the brand, and also motivate them to be advocates who recommend the brands and products to their friends, family, peers, and others.

**Advocates** are those who promote your brand, products and services on your behalf<sup>2</sup>. They feel happy about your products and services that they not only purchase from you again and again but also promote your brand to others<sup>4</sup>. Organisations should consider advocates as a valuable asset and provide something special and different to sustain their loyalty and recommendation behaviours. There are nine retention and loyalty strategies to be adopted in different situations<sup>1, 4</sup>:

**Figure 9-4 Retention and Loyalty Strategies<sup>1, 4</sup>****1. Interacting with customers, clients, and advocates to attain intimacy**

Marketers have to communicate with and listen to customers, clients, and advocates to attain intimacy. Interactive communication should be made on a timely, continuous and informative basis to build lifetime and personalised dialogues with customers across all marketing channels. Also, marketers have to listen to their complaints and feedback towards the products and services continuously. Mechanisms may include in-depth interviews, focus group discussion, hotlines, email contacts, feedback form, survey, etc.

**2. Adopting customisation or personalisation**

Customisation and personalisation are important strategies for marketers to keep customer loyalty and encourage positive retention behaviours. Customisation refers to designing a product to suit a customer's needs<sup>1</sup>. Personalisation means the customer is a creator or co-creator of the content. In different situations, they could have different explanations<sup>1</sup>:

**Figure 9-5 Customisation and Personalisation in Different Situations**

	Customisation	Personalisation
<b>Over the Web</b>	Organisation modifies the website to suit the needs of a consumer.	Ability of a customer to modify the website to suit his/her own preference.
<b>General Service Encounter</b>	Ability of an organisation to adapt its marketing mix strategies to suit the needs of a consumer.	Consumer's perception of how personally he/she is treated.

**3. Providing preferential treatment to high-value or potential customers**

Organisations have to offer preferential treatment to keep high-value or potential customers. The effectiveness of preferential treatment depends on customer evaluation. Examples include a free drink, VIP pre-sale day, special shopping days and hours, special discounts and offers.

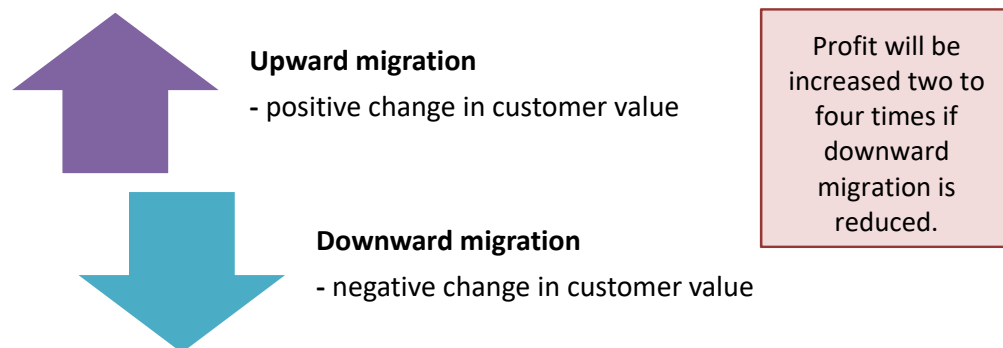
#### 4. Managing moments of truth

Moments of truth refer to instances of contact between a customer and an organisation that gives the customer an opportunity to form an impression about the organisation<sup>1</sup>. Organisation's reaction at the moments of truth can have a dramatic impact on customers' decision to stay or to leave. Organisations have to understand these moments of truth and then empower trained employees to deal with these situations. Prompt and timely assistance can create emotional bonding with customers, and also deepen their trust and commitment with a company.

#### 5. Measuring and managing migration

Migration is the change in customer value over time: upward and downward migration. Reducing downward migration could provide an organisation with two to four times more profit. Downward migration characterises customers who buy less. Usually, there are three reasons causing downward migration: dissatisfaction, change in life stage or life cycle, and attraction to a better package offered by alternative brands.

**Figure 9-6 Types of Migration**



#### 6. Conversing transactional buyers to relational buyers

Identify short-life but profitable transactional customers and then convert them to a more attractive segment through enrolling in points, punch, gift, or other loyalty programmes. Elevate these customers into a more profitable and enduring group through attractive rewards.

#### 7. Segmenting customers by using “profit-drivers”

An organisation should classify customers into positive profit-driving and negative profit-driving groups by calculating customer costs and customer revenue. Differentiation strategy has to be developed and implemented to serve these two groups to attain the highest return to the organisation.



## 8. Cross-selling or up-selling

Organisations have to identify potential customers to do cross-selling and up-selling based on data analytics.

**Figure 9-7 Cross-selling vs. Up-selling**

	Cross-sell	Up-sell
<b>What?</b>	Induce customers to spend more money to buy products from other categories than the product being viewed or purchased.	Induce customers to purchase a more expensive model of the same type of product, or add features or warranties that relate to the product.
<b>When?</b>	It is usually conducted at acquisition or selling stage, or problem/complaint-handling stage. It is effective when customers begin a conversation with an organisation.	The relationship with customers has progressed through acquaintanceship and trust stages and entered the commitment stage.
<b>How?</b>	Offer clever, creative and ground-breaking super-bundles.	Expose customers to higher-level services or better-quality products through complimentary “upgrades”.

## 9. Rewarding customers through benefits

Marketers can provide different types of benefits in designing loyalty programmes to reward customers in return for loyalty. Benefits for customers are recapped below:

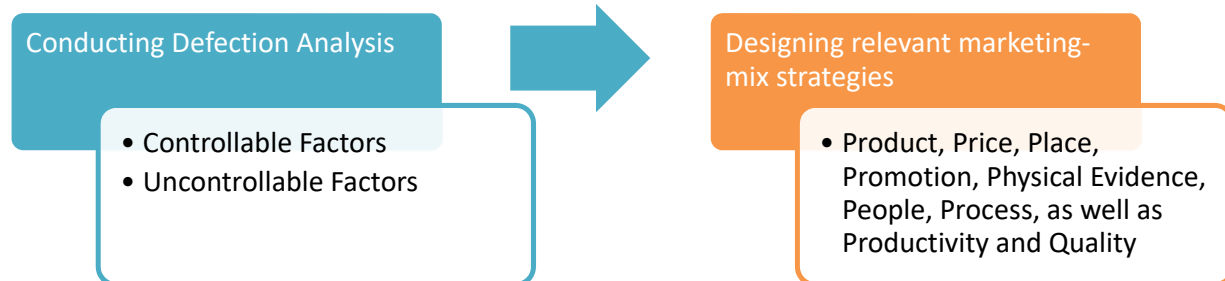
**Figure 9-8 List of Benefits**

Five Levels of Benefits	Meaning	Examples
<b>6. Economic benefits</b>	Price-oriented advantages or economic considerations in relationships.	Discounts, price breaks, time savings, etc.
<b>7. Social benefits</b>	Benefits earned through human contact in the service delivery process.	Any actions or offers that could build a close relationship between the company and customers, more time spent with the salesperson, friendship, user support group, customer community, etc.
<b>8. Psychological benefits</b>	A comfort or feeling of security in having a relationship.	Any actions or offers that could reduce anxiety or develop trust and confidence, etc.
<b>9. Customisation benefits</b>	Benefits tailored to individual needs or preference.	Preferential treatment, additional services or consideration, flexible market offering <sup>^</sup> , etc.
<b>10. Structural bonds</b>	Value-added benefits which are unavailable from competitors, and increase switching barriers or costs to consumers.	Free system, technical, or services support, or any other actions that could increase switching barriers or costs.

### 9.2.3. Win-back Strategies

Win-back strategies are used to manage relationships with defectors. They are the customers, clients or advocates who left the relationship. For these cases, organisations should first conduct defection analysis, and then design relevant marketing-mix strategies to win back their loyalty, trust, and/or commitment.

**Figure 9-9 Win-back Strategies<sup>1,4</sup>**



#### 1. Conducting defection analysis

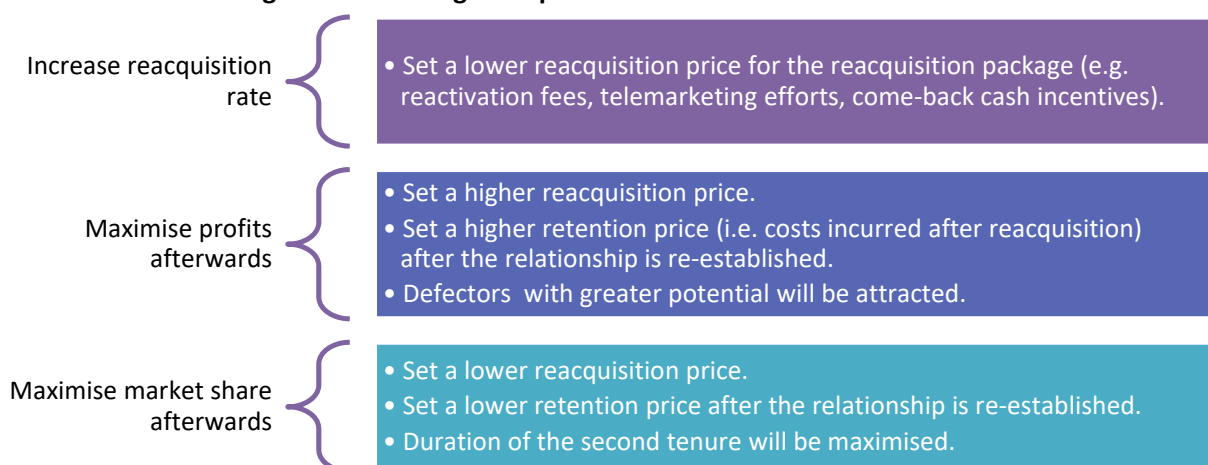
Defection analysis seeks to identify the reasons for leaving<sup>1</sup>. Reasons could be controllable or uncontrollable by organisations. Controllable reasons may include poor product quality, disappointing services, dissatisfactory pricing, and better competitive offerings<sup>1</sup>. Uncontrollable reasons may include moving, life cycle changes, and novelty seeking<sup>1</sup>. Based on the reasons, relevant marketing-mix strategies have to be designed for respective cases.

#### 2. Designing relevant marketing-mix strategies

Organisations could resolve the failures by product replacement and service recovery strategies for controllable failures like (confirmed) poor product quality, better competitive offerings, and disappointing services. For dissatisfactory pricing, appropriate promotional and pricing approaches could be used to gain back loyalty, trust, and/or commitment.

For the pricing and promotional approaches, marketers may consider the “last price” the defectors paid in the prior relationships<sup>3</sup>. This “last price” can affect their price sensitivity and behaviour in reacquisition and retention under the win-back strategy<sup>3</sup>. Therefore, marketers have to set the reacquisition price and retention price properly.

**Figure 9-10 Setting Reacquisition Price and Retention Price<sup>3</sup>**



**Figure 9-11 Game Corner*****Instruction: Identify the possible CRM Strategies for the following Cases.***

CRM Cases	Relationship Stage	CRM Strategy
1. Panda Skincare organised a product sample request campaign. Anna came across this promotion on its Facebook page.		
2. Judy has been the satisfied customer of Panda Skincare for years, but she is interested in a new skincare brand from Korea. Judy decides to buy its serum for face, but keep using the toner, eye cream, and facial cream of Panda Skincare. Panda Skincare realises that Judy is not satisfied with the skincare line she is using, and it seems that a premium line may bring her a better effect.		
3. Bonnie is a new customer of Panda Skincare. She purchased the basic skincare line for trial, and she is interested in purchasing other skincare lines. Panda Skincare wants to strengthen its relationship with Bonnie through the use of different skincare products.		
4. Panda Skincare checked its database and found that Tracy was a loyal and satisfied customer of Panda Skincare for years, but she suddenly stopped purchasing its products three months ago. Panda Skincare got no ideas about this and wanted to follow up her case.		
5. Panda Skincare wants to identify profitable customers for more sales promotion and less profitable customers for product and brand promotion.		

### 9.3. Chapter Summary

1. The CRM Strategy Cycle has three stages: acquisition and development; retention and loyalty; and win-back. Proper CRM strategies could be used in specific relationship stages.
2. The nine retention and loyalty strategies could be applied to customers, clients, or advocates in different situations.
3. An organisation should continuously analyse the behaviours and feelings of its customers, clients, and advocates, and take actions before they leave the organisation.
4. Marketers have to measure the migration trend of customers, clients and advocates, and then identify those who have downward migration, and design relevant marketing-mix strategies to increase their customer value.
5. When an organisation focused on CRM, it has to recruit suspects and prospects, and then convert them into customers to ensure sustainable growth of its business.

### 9.4. Key Terms

**Reacquisition price** refers to the costs incurred in reacquiring lost customers.

**Retention price** refers to the costs incurred after reacquiring lost customers.

## 9.5. Concept Check Quiz

1. Describe the CRM Strategy Cycle.
2. Describe the five relationship stages of the CRM Strategy Cycle.
3. Describe any four retention strategies.
4. Define “Advocates”, according to the CRM Strategy Cycle.
5. Identify any CRM strategy for attracting more new customers to a brand. Give an example to illustrate your answers.
6. Identify relevant CRM strategies for winning defectors.
7. Describe the differences between customisation and personalisation.
8. Describe the differences between cross-selling and up-selling.
9. Describe any two benefits for keeping customers situated at lower relationship stages.

## 9.6. Concept Challenge Quiz

1. Pandora is considering expanding its customer base through its existing customers. Recommend any ONE relevant relationship or CRM strategy to encourage customers/clients to refer Pandora to its friends, families, peers, and others. Explain the ideas of your strategy.

**Hint:** Answers should address the appropriate CRM strategy (Retention & Loyalty Strategies) and then give some suggestion/examples to explain the strategies to be implemented. The examples should be explicitly explained.

2. :CHOCOOLATE realises that some of its members are losing. Suggest appropriate CRM strategies and tactics for recruiting these lost members. Explain your answers by providing some examples in relation to :CHOCOOLATE.

**Hint:** Answers should address the appropriate CRM strategy (Win-back Strategies) and then give some suggestion/examples to explain the strategies to be implemented. The examples should be explicitly explained.

3. :CHOCOOLATE developed a customer database for managing different types of customers. It realised that some customers need more interaction, some prefer more customisation and preferential treatment, and some customers are buying less than before. Propose four loyalty and retention strategies for :CHOCOOLATE to these customers.

**Hint:** Answers should focus on four possible loyalty and retention strategies, and examples or details of each should be described properly.

## 9.7. References

1. Baran, R. J. & Galka R. J. (2013). *CRM: The Foundation of Contemporary Marketing Strategy*. NY: Routledge.
2. Learn Marketing (n.d.). *Ladder of Customer Loyalty*. Retrieved August 12, 2015 from, <http://www.learnmarketing.net/ladder.htm>
3. Thomas, J. S., Blattberg, R. C. & Fox, E. J. (2004). Recapturing lost customers. *Journal of Marketing Research*, 41(1), 31-45.
4. Kotler, P. & Keller, K. L. (2012). *Marketing Management* (14<sup>th</sup> ed.). Upper Saddle River, N.J.: Pearson Prentice Hall.

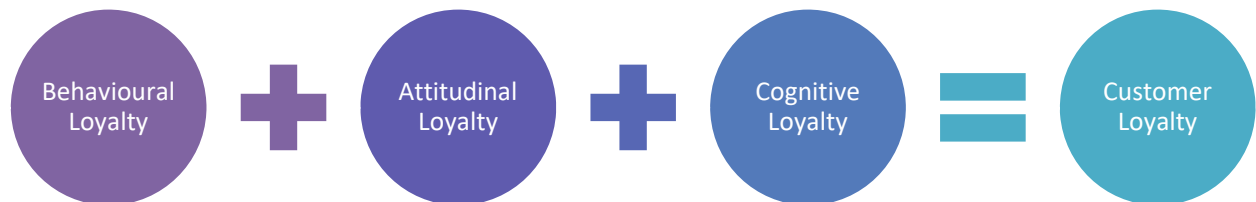
### 10.1. Chapter Objectives

- Recognise the outcomes of customer loyalty.
- Design loyalty programmes.
- Appreciate the roles of determinants to satisfaction and loyalty – quality and value perception.

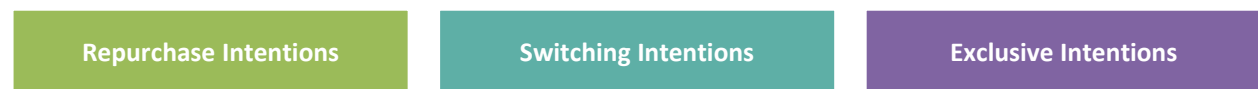
### 10.2. Outcomes of Customer Loyalty

Maintaining customer loyalty can generate profitability and revenue growth<sup>2</sup>. It is obvious that the outcomes of customer loyalty have to be clearly understood by marketers in order to adopt appropriate CRM or marketing strategies for sustaining customer loyalty in a relationship. Generally, the outcomes of customer loyalty could be classified into three types: behavioural loyalty, attitudinal loyalty, and cognitive loyalty<sup>9</sup>.

**Figure 10-1 Outcomes of Customer Loyalty<sup>9</sup>**



Behavioural loyalty covers the retention and net present value obtained from customers<sup>9</sup>. Customers would (1) repurchase from the same service provider, (2) have lower switching intentions, and (3) make all purchases in a particular category from a single provider<sup>9</sup>.



Attitudinal loyalty is an emotional-based assessment of a brand, i.e. relative attitude<sup>9</sup>. Customers would (1) recommend the brand to others, (2) have strong preference to the brand, (3) have a sense of affiliation with the product, service or organisation, as well as (4) demonstrate altruistic behaviour (e.g. help the brand or other customers for better delivery of the products)<sup>9</sup>.



Cognitive loyalty is a conscious assessment of a brand or its attributes, or a conscious assessment of the advantages and incentives of repurchasing<sup>9</sup>. Customers usually (1) have lesser sensitivity towards price fluctuation and (2) consider a brand exclusively for a particular product/service. They also (3) identify a brand as an extension of one's self and accept this by using terms such as "my service provider", "us", and "we"<sup>9</sup>. It, therefore, becomes the first preference of the customer<sup>9</sup>. Also, the brand or provider usually occupies a prominent space in the mind of customers<sup>9</sup>.



Figure 10-2 Outcomes of Customer Loyalty

Customer Loyalty Outcomes		
Behavioural Loyalty	Attitudinal Loyalty	Cognitive Loyalty
Repurchase Intentions	Relative Attitude	Willingness to Pay More
Switching Intentions	Willingness to Recommend	Exclusive Consideration
Exclusive Intentions	Altruism	Identification

Figure 10-3 Game Corner

*Instruction: Evaluate the loyalty outcomes for the following situation*

#### Case

Candace is a loyal customer to BB Coffee Shop with a favourable attitude. She loves BB Coffee Shop more than other brands and shops. She has recommended this shop to her best friends, Amy and Ben. She is very willing to recommend this shop to other friends and colleagues. She always introduces its new drinks and cakes to them on behalf of BB Coffee Shop.

The products of BB Coffee Shop are a bit expensive than other brands and shops, but Candace doesn't care about that. She only considers BB Coffee Shop as the only option for her coffee consumption, as she likes the taste a lot. She couldn't find other brands or shops offering coffee drinks with the same good taste. She always says to her friends, "My coffee brand is good! Have a try!".

Candace keeps repurchasing coffee and cakes from the only one shop for years. She recently had a dissatisfactory shopping experience at the shop, and she tried to consume at other coffee shops. She was introduced to try JC Café by her colleague, Bobo, and she enjoyed its coffee drinks.

<b>Behavioural Loyalty</b>	=	<b>Attitudinal Loyalty</b>	=	<b>Cognitive Loyalty</b>	=
<i>Repurchase Intentions</i>	=	<i>Relative Attitude</i>	=	<i>Willingness to Pay More</i>	=
<i>Switching Intentions</i>	=	<i>Willingness to recommend</i>	=	<i>Exclusive Consideration</i>	=
<i>Exclusive Intentions</i>	=	<i>Altruism</i>	=	<i>Identification</i>	=
Options: strong, low, medium, weak, increasing, depreciating, absent, etc.					

### 10.2.1. Types of Loyalty Programme

Customer loyalty programmes are widely used in the market to keep customers in the relationship. There are different types of loyalty programme available for chosen, and marketers can use one or more types of programme to attract different groups of customers. The membership programme offered by Häagen Dazs is an example of applying different types of loyalty programmes (<https://members.haagen-dazs.com.hk/en/member-privilege>)

**Figure 10-4 Types of Loyalty Programme<sup>1,6,7</sup>**

<b>Punch Programme</b>	Offer loyalty punches for product purchases.
<ul style="list-style-type: none"> <li>•Example: Stamp Collection Programme offered by Wellcome Supermarket (Customers can get stamps for every \$60 purchase and then redeem different premiums.)</li> <li>•<a href="https://www.wellcome.com.hk/wd2shop/en/mobile/html/happystamp.html">https://www.wellcome.com.hk/wd2shop/en/mobile/html/happystamp.html</a></li> </ul>	
<b>Tiered Programme</b>	Segment customers based on the level of customer engagement. Loyalty tiers may be customised.
<ul style="list-style-type: none"> <li>•Example: MTM Skincare's Club MTM Membership Programme (Members are divided into four tiers: pre-member, pearl, topaz, and diamond. Each member tier enjoy different levels of membership benefits.)</li> <li>•<a href="https://www.mtmskincare.com/club_mtm">https://www.mtmskincare.com/club_mtm</a></li> </ul>	
<b>Upfront-fees Membership Programme</b>	A one-time (or annual) fee is charged to customers to enjoy benefits under certain membership conditions.
<ul style="list-style-type: none"> <li>•Example: Outback Prestige Club (Customers can join Outback Prestige Club after paying \$488 membership fee.)</li> <li>•<a href="https://www.outback.com.hk/membership?lang=en">https://www.outback.com.hk/membership?lang=en</a></li> </ul>	
<b>Gift Programme</b>	Sell gift cards and the value may be redeemed in any stores a customer makes a purchase.
<ul style="list-style-type: none"> <li>•Example: Marks &amp; Spencer Gift Card (Customers can purchase gift cards to friends or family and then would induce them to keep purchasing.)</li> <li>•<a href="https://www.marksandspencer.com/l/gifts/gift-cards">https://www.marksandspencer.com/l/gifts/gift-cards</a></li> </ul>	
<b>Coalition Programme</b>	Partner with other companies to provide all-inclusive offers.
<ul style="list-style-type: none"> <li>•Example: Popular Bookstore Membership Connections. (Customers can enjoy discounts in partnered brands by using its membership card.)</li> <li>•<a href="https://www.popular.com.sg/popular-connections">https://www.popular.com.sg/popular-connections</a></li> </ul>	
<b>Points Programme</b>	Award loyalty points for any type of engagement, monetary or non-monetary. Each engagement may be worth a variable number of loyalty points.
<ul style="list-style-type: none"> <li>•Example: Laneige Skincare Membership Program (Members can redeem points for regular-priced products).</li> <li>•<a href="https://www.laneige.com/hk/en/laneige-club-membership-program/laneige-club-membership-program-2019/laneige-club-membership-program-2019.html">https://www.laneige.com/hk/en/laneige-club-membership-program/laneige-club-membership-program-2019/laneige-club-membership-program-2019.html</a></li> </ul>	
<b>Open Club Membership Programme</b>	Membership is open to everyone who purchases a product or service.
<ul style="list-style-type: none"> <li>•Example: Godiva VIP Programme (Customers can become members upon purchased \$2,000 in any HK stores.)</li> <li>•<a href="https://www.godiva.com.hk/hken/vip-conditions/">https://www.godiva.com.hk/hken/vip-conditions/</a></li> </ul>	

Figure 10-5 Game Corner cum Examples

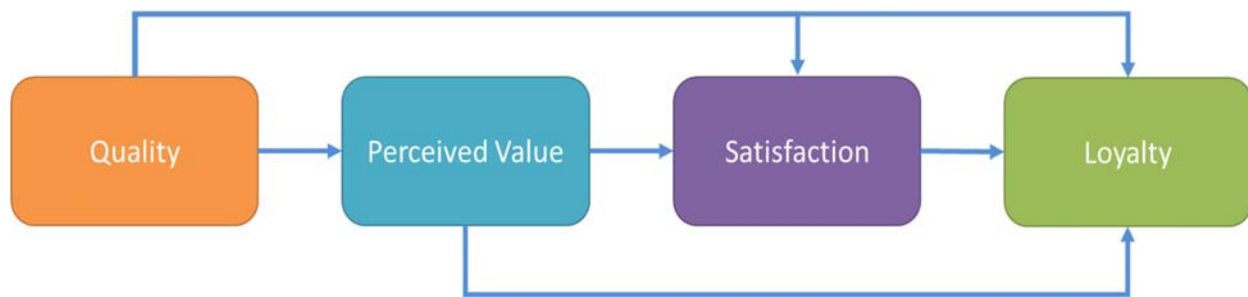
**Instruction: Find out the correct loyalty programme for the following cases**

Cases	Loyalty Programme(s)
1. Gong-cha issued a sticker collection card for any customers who bought a drink costs \$15 or more. Cardholders can redeem a free drink after collected 10 stickers.	
2. Apple Inc. offers iTunes GiftCard for customers to buy and send to friends as a gift to redeem products or services in the iTunes Store, App Store and Mac App Store.	
3. Any customers who have spent HK\$300 (with purchase condition) can become Mega Club members of Mega Box Shopping Mall.	
4. Toysrus cooperates with different brands including Bossini, Sky100, Intercontinental hotels, KFC, and Saint Honore Cake Shop to offer special discounts to its Star Card Member.	
5. The VIP Club of Spaghetti House can be joined by paying \$450. VIP members will then receive cash coupons, free dish coupons, discount offers and other year-round special offers.	
6. Customers of L'OCCITANE HK can become its VIP upon a net purchase of HK\$1000. They can collect 1 bonus point for each HK\$100 spent in the purchase and then redeem Gift Certificates at different amounts.	
7. Wai Yuen Tong Membership Programme has three types of membership: VIP, Platinum, and Titanium. For net purchase of \$1500 in a single receipt, customers can join as VIP member. For net purchase of \$5000 in a single receipt or a cumulative of \$10000 within 3 months, customers can join as a Platinum member. For those who have cumulated \$50000 within 3 months, they can join as Titanium member. All members can gain 1 bonus point for every net purchase of \$100. They can also enjoy an exclusive discount, super Thursday privilege, birthday rewards, professional services, and so on.	
8. City'super has a membership system differentiating its customers. Every customer can become a super e-card member by spending a cumulative of \$600 in its stores. Customers can earn 1 point for every \$1 spent. If super e-card members accumulate 30000 points or above within 12 months, then he or she can become super e-gold card member. These two types of members enjoy different types of rewards. Also, City'super offers Gift Card to its customers.	

### 10.3. Determinants of Loyalty

According to the service-profit chain concept, there are three major determinants of loyalty: quality, perceived value and satisfaction. They have a direct and indirect effect on loyalty. Other than these three major determinants, there are other determinants found in literature, including trust, commitment, switching cost, brand image, service recovery, emotions, and communication<sup>9</sup>. For the coming section, we will focus on quality, perceived value and satisfaction.

**Figure 10-6 Relationships among Quality, Perceived Value, Satisfaction and Loyalty**



### 10.4. Quality

Quality is defined as the totality of features and characteristics of a product or service that satisfies stated or implied customer need<sup>1</sup>. Quality has a positive impact on perceived value, satisfaction and loyalty respectively; meanwhile perceived value and satisfaction could moderate the relationship between quality and loyalty. Usually, quality could be divided into conformance quality (CQ) and performance quality (PQ)<sup>1</sup>. They are equally important to brands.

**Figure 10-7 Game Corner**

**Instruction: Find out the correct types of quality for the following cases**

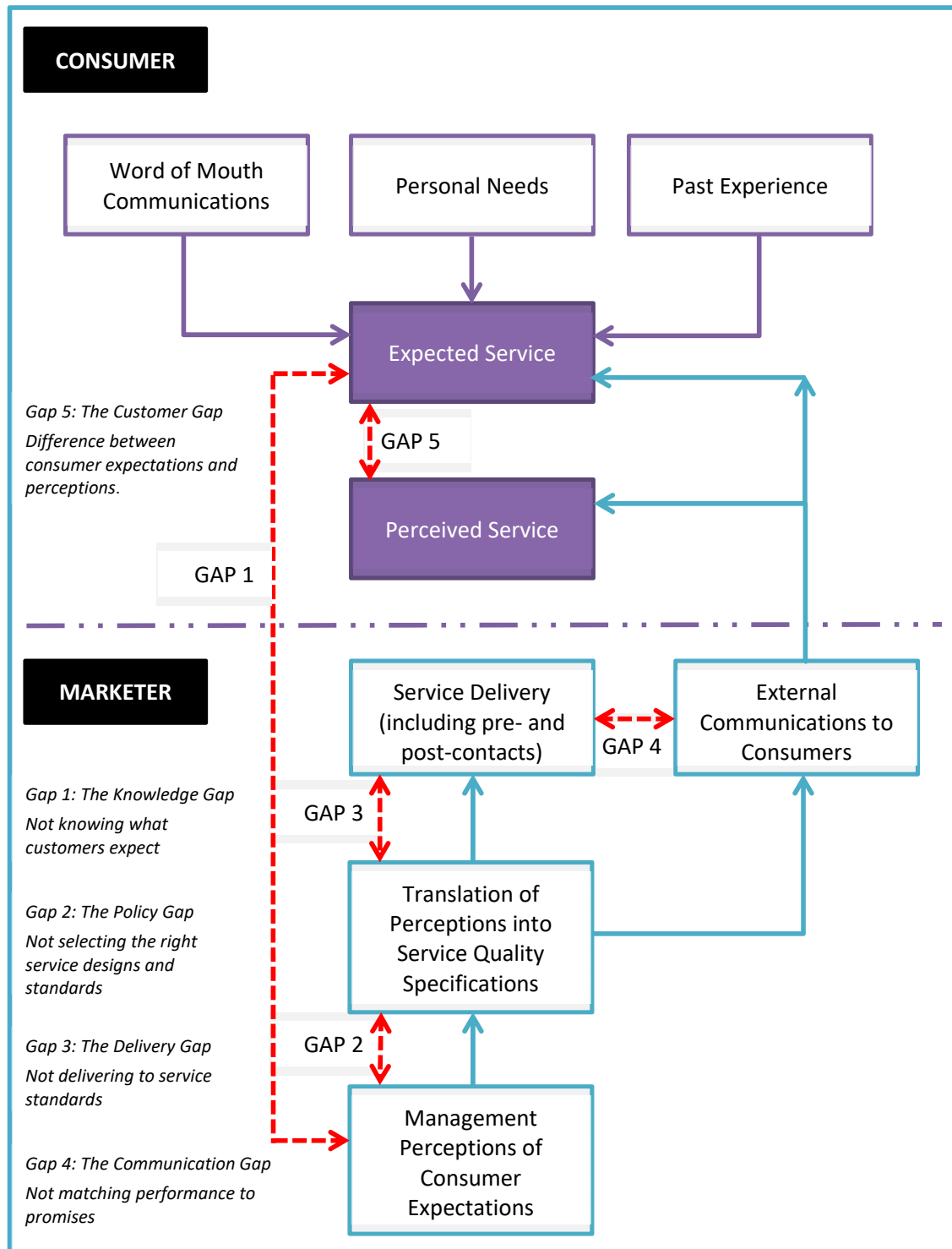
Cases	CQ vs. PQ
1. The quality of strawberries, raspberries, and blueberries offered by CarCar Company meets the quality standard stated on its website.	
2. The quality of strawberries, raspberries, and blueberries offered by CarCar Company is better than those offered by BeeBee Company.	
3. Alligator Company claimed that all of its leather products met its internal quality standard. All these products have water-proof and stain-proof features.	
4. Dolphin Company claimed its fishing products are far superior to the products offered by Shark Company.	

## 10.5. Service Quality

### 10.5.1. Service Gap Model

Service quality is defined as the comparison between customers' expectation of service and their perception of the delivered service<sup>10, 11</sup>. When there is a discrepancy between a service provider's performance and customer expectations, various quality gaps exist (Gap model)<sup>10, 11</sup>. For details, please refer to

Figure 10-8 Service Gap Model<sup>10,11</sup>



**Figure 10-9 Service Gaps and Respective Solutions**

Gap 1 Knowledge Gap	Gap 2 Policy Gap	Gap 3 Delivery Gap	Gap 4 Communication Gap	Gap 5 Customer Gap
The gap between customer expectations and management perception	The gap between management perception and service quality specification	The gap between service quality specification and service delivery	The gap between service delivery and external communications	The gap between customer expectations and customer perceptions
Conduct market research to understand customer expectations	Ensure proper, update, and standardised service design	Provide trainings and guidelines about the service delivery to employees	Avoid over-promising on any communication platforms	Understand customer expectations and deliver services accordingly

**Figure 10-10 Game Corner**

**Instruction: Identify and evaluate the service gap for the following cases**

Cases	Quality Gap #	Gap Closed?
1. Stanley came across a promotional flyer of a new fitness centre. The flyer mentioned a free trial of a fitness class with a coach for an hour. He registered and joined this free trial class, but he found that coach was not around and the class was last for 40 minutes only. Also, a salesperson spent around 30 minutes to promote its services and classes.		
2. Josie had dinner with her friends at a new restaurant. She found that the services were good, the food and drinks were tasty, and the staff were nice. Its service performance and food quality were more than her expectation. She had a great time at this restaurant and decided to consume again with her colleagues in the new future.		
3. J&J is a service provider offering barbeque foods and services at Wonderful Beach. It believed that consumers expect self-service, and so it didn't recruit sufficient staff at the shop. The sales were very disappointing, and the manager realised that they didn't understand what consumers want.		
4. Deluxe Cooking Centre realised that its members enjoy taking classes about different cuisines, e.g. a series of five classes and each covered one type of cuisine. However, the classes were not designed properly by the junior instructors as planned by the senior instructors.		
5. The Island Kingdom is a health and fitness consultancy. It designed a series of procedures for serving new consumers. It provided 1-month training for all staff about the procedures and found that the staff followed all procedures when serving new consumers properly.		

### 10.5.2. SERVQUAL Instrument

Service quality is then conceptualized as a multidimensional concept consisting of the characteristics of reliability, tangibles, responsiveness, empathy, and assurance<sup>10, 11</sup>. SERVQUAL is an instrument developed to measure these five service quality dimensions by using a pair of 22 measurement items<sup>10, 11</sup>. The items were measured by 7-point Likert scale from Strongly Disagree (1) to Strongly Agree (7). The first set of 22 measurement items was developed to measure customer expectation, and the second set was designed to measure customer perception. This instrument had been used to assess quality performance in different service settings. A revised instrument was also developed to measure the perceptions aspects of service quality, and it was named as SERVPERF<sup>12</sup>.

**Figure 10-11 The Five Service Quality Dimensions of SERVQUAL**

Reliability	•Ability to perform the promised service dependably and accurately
Tangible	•Appearance of physical facilities, equipment, personnel, and communication materials
Responsiveness	•Willingness to help customers and provide prompt service
Empathy	•Caring and individualized attention the firm provides its customers
Assurance	•Knowledge and courtesy of employees and their ability to convey trust and confidence

**Figure 10-12 Game Corner**

**Instruction: Identify and evaluate the service quality dimension for the following cases**

Cases	Dimension	Evaluation
1. Katy ordered a set lunch at BB Pig Restaurant, and the waiter promised to deliver within 10 minutes. However, she waited for her lunch set for more than 20 minutes.		
2. Ben enjoyed the services at Monster Fitness Centre, as the coach, Victor, always provide personal advice on his fitness training. His needs are often addressed well, which is out of his expectation.		
3. Lidia loves the clean, tidy, and relaxing environment of Beauty Queen Massage. She only consumes massage services at Beauty Queen Massage, as its environment is better than the other centres.		
4. Terry purchased a new model of smartphone from Smarties Electronics. He had no ideas on transferring the contacts and installing apps. He asked the employees of Smarties Electronics for help, but he found that they were not willing to help.		
5. Cherry felt that the employees of KIDS Playground were very nice and polite. They were also knowledgeable in offering guidance.		

*Evaluation: e.g. poor, good, average, excellent, more than expectation, below expectation, met expectation, etc.*

Figure 10-13 SERVQUAL Instrument<sup>10, 11</sup>

### Reliability

- When this company **promises** to do something by a certain time, it *should do* (does) so.
- When customers have problems, this company *should be* (is) **sympathetic** and **reassuring**.
- This company *should be* (is) dependable.
- It *should provide* (provides) its services at the time it **promises** to do so.
- This company *should keep* (keeps) its records **accurately**.

### Tangible

- Company *should have* (has) **up-to-date** equipment.
- Its physical facilities *should be* (are) **visually appealing**.
- Employees *should be* (are) **well-dressed** and **appear neat**.
- The **appearance** of the physical facilities of this company *should be* (is) in **keeping with the type of services provided**.

### Responsiveness

- This company *should not be expected to* (does not) tell customers exactly **when** services will be performed. (-)
- *it is not realistic for customers to expect* (You do not receive) **prompt service** from employees of this company. (-)
- *Its employees don't always have to be* (Employees of this company are not always) **willing to help** customers. (-)
- *It is okay if they* (Employees of this company are) are too busy to respond to customer requests **promptly**. (-)

### Empathy

- This company *should not be expected to* (does not) give customers (you) **individual attention**. (-)
- Employees of this company *cannot be expected to* (do not) give customer (you) **personal attention**. (-)
- *It is unrealistic to expect employees to* (Employees of this company do not) **know what the needs of their customers** (your needs) are. (-)
- *It is unrealistic to expect this company to have its customers'* **best interest at heart** (This company does not have your best interests at heart). (-)
- *It shouldn't be expected to* (This company does not) have operating hours convenient to all its customers. (-)

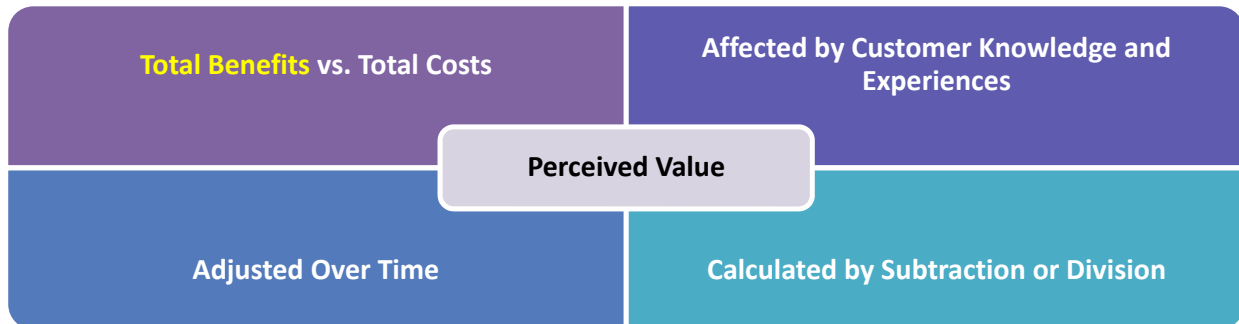
### Assurance

- Customers *should be able to* (You can) **trust** employees of this company.
- Customers *should be able to* (You) feel **safe** in their transactions with this firm's employees.
- Its employees *should be* (are) **polite**.
- Employees *should get* (get) **adequate support** from this company to do their jobs well.

## 10.6. Perceived Value

Perceived value is the difference between total benefit (get) and total cost (give) towards a product from customer perspective<sup>1</sup>. Customers may perceive different value levels towards the same product depending on their knowledge and experiences with the brand and/or product. Value perception is also adjusted over time. Calculation of perceived value could be derived by either subtraction or division.

**Figure 10-14 Features of Perceived Value**



Total benefit is the perceived monetary value of the bundle of economic, functional and psychological aspects customers perceive from a given market offering because of product, service, personnel and image benefits involved<sup>1</sup>. Total cost is the perceived bundle of costs customers perceive to incur in evaluating, obtaining, using and disposing of the given market offering, including monetary, time, energy and psychological costs<sup>1</sup>.

**Figure 10-15 Perceived Value Concept<sup>1</sup>**

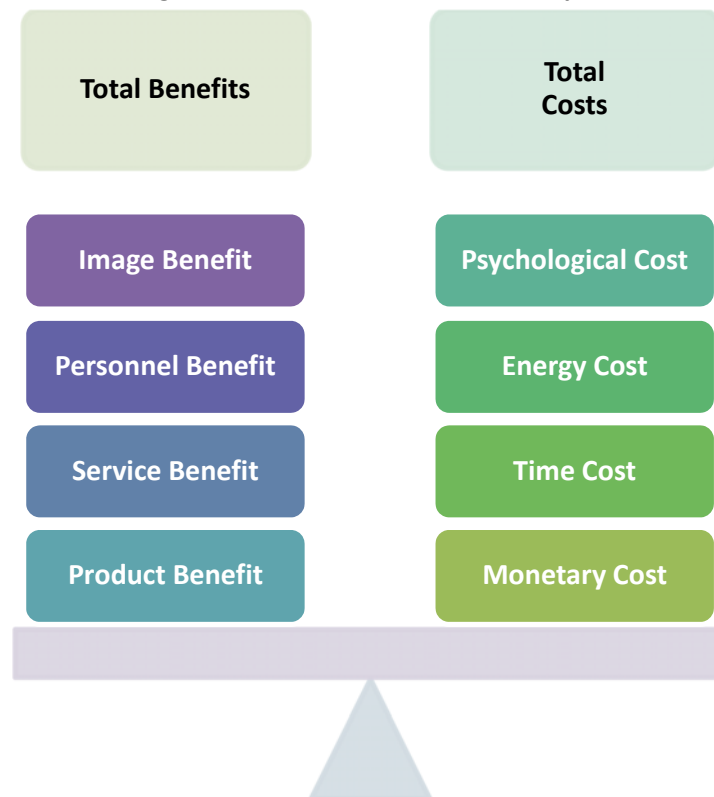


Figure 10-16 Game Corner

**Instruction: Identify the types of benefit and cost of TNTs Reish Renewal Therapy"**

### Cases

TNT Skincare is a famous brand which offers custom-blended skincare solution for people who are at middle to higher income classes. TNT Skincare is now promoting its new treatment service – Reishi Renewal Therapy. This treatment service is not being provided by its major competitors.

Ivy is one of its loyal customers. She is 30 years old. She is an accountant working in Tsim Sha Tsui. She has to work for at least 9 hours for each weekday. She has tried TNT's custom-blended skincare products for years and felt satisfied with its **personalised products** (\_\_\_\_\_), **personalised and courteous services** (\_\_\_\_\_), **responsible and caring staff** (\_\_\_\_\_), as well as its **reputable image** (\_\_\_\_\_). She is considering using its Reishi Renewal Therapy treatment service to further improve her skin condition for her wedding. She wants to be the prettiest on her big day.

***She believes that this new therapy treatment service could strengthen her skin by deeply nurturing and balancing body, mind and soul. It can give skin relaxing, stress-free experience and restore "Authentic Beauty" for users. It can promote detoxification, provide incomparable nourish, strengthen the skin, enhance face firming, double the anti-aging effect and return skin elasticity.***  
(\_\_\_\_\_)

However, Ivy has some hesitations to consume this treatment service that ***her fiancé and friends may comment on her purchase*** (\_\_\_\_\_). Also, she has to spend ***30 minutes travelling time from her work place to MTM's Treatment Centre at Central and then another one hour from the centre to her home at Tai Po*** (\_\_\_\_\_). ***The long travelling time and distance make her feel tired*** (\_\_\_\_\_). Also, she has to ***spend at least two hours each time to enjoy this treatment service*** (\_\_\_\_\_). The package price of this treatment service ***costs around \$20 000*** (\_\_\_\_\_), whereas she can enjoy the services for ten times within two years.

## 10.7. Chapter Summary

1. Loyalty outcomes include attitudinal, cognitive, and behavioural loyalty. Customers not only demonstrate one type of loyalty outcomes.
2. Marketers can adopt more than one type of loyalty programme at the same time.
3. Conformance quality is as important as performance quality.
4. The five service quality dimensions are reliability, tangibles, responsiveness, assurance, and empathy.
5. Managing both total benefits and total costs is the key to achieve higher customer value perception.

## 10.8. Key Terms

**Attitudinal Loyalty** refers to a customer's perception and attitude toward a particular product or service<sup>3</sup>.

**Behavioural Loyalty** refers to the observed actions that customers have demonstrated toward a particular product or service<sup>3</sup>.

**Loyalty** is a deeply held commitment to re-buy a product or re-patronize (visit again) a shop in the future despite situational influence and marketing efforts having the potential to cause switching behaviour<sup>1</sup>.

**Perceived Value** is the difference between total benefit (get) and total cost (give) towards a product from customer perspective<sup>1</sup>.

**Quality** is defined as the totality of features and characteristics of a product or service that satisfies stated or implied customer need<sup>1</sup>.

**Total Benefit** is the perceived monetary value of the bundle of economic, functional and psychological aspects customers perceive from a given market offering because of product, service, personnel and image benefits involved<sup>1</sup>.

**Total Cost** is the perceived bundle of costs customers perceive to incur in evaluating, obtaining, using and disposing of the given market offering, including monetary, time, energy and psychological costs<sup>1</sup>.

## 10.9. Concept Check Quiz

1. Define attitudinal and behavioural loyalty, and then give one example to illustrate the differences between these two types of loyalty.
2. Describe the relationships among quality, perceived value, satisfaction, and loyalty.
3. Describe the differences between conformance quality and performance quality, and then give one example to illustrate the differences.
4. Describe the five service quality gaps. Illustrate each gap by using a fitness and health centre as an example. Also, provide solutions or strategies to close each gap.
5. Define the five service quality dimensions. Illustrate each dimension by using a restaurant as an example.
6. Utilise one example to explain the perceived value concept. Describe each type of benefits and costs by using your recent shopping experiences.

### 10.10. Concept Challenge Quiz

1. Fujifilm recruited a large group of youngsters and developed a database to keep customer profiles. Fujifilm found out that the members have two major spending patterns, and they are expected to have different attitudes and behaviours towards the membership offers, gifts or rewards. The first group of youngsters spend relatively more, and they are eager to receive premiums and try other product categories. The other group of youngsters spent relatively less, and they are more attracted by discounts, coupons and deals. Propose a loyalty programme with details for Fujifilm to keep relationships with its customers.

**Hint:** Answers should address the two spending patterns, different attitudes and behaviours of the members. Also, the loyalty programme should include information about conditions and rewards.

2. Beauty Ballet Centre wants to provide quality services for its students. Recommend relevant quality dimensions for enhancing its service quality according to the SERVQUAL instrument.

**Hint:** Answers should address each quality dimension of SERVQUAL. Explanation and examples should be provided.

3. Rainbow is the “bronze” member of See See Fitness for two years. She likes its services and courses. She also referred her best friend, Choco, to join the membership offered by See See Fitness. However, she refuses to join a premium membership, “Silver”, by paying \$10,000 more for the coming year. She would like to continue her bronze membership for one more year. Describe the three types of loyalty outcomes of Rainbow in the above case and then propose a relevant CRM strategy to enhance her loyalty to See See Fitness.

**Hint:** Answers should focus on loyalty outcomes. Each loyalty outcome should be clearly identified, defined and then properly commented in relation to the case information. For the CRM strategy to sustain her loyalty, any relevant loyalty and retention or CRM strategies (with explanation and examples) could be used. Refer the notes of Chapter 9 “Strategies for CRM” for the answers.

### 10.11. References

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### 11.1. Chapter Objectives

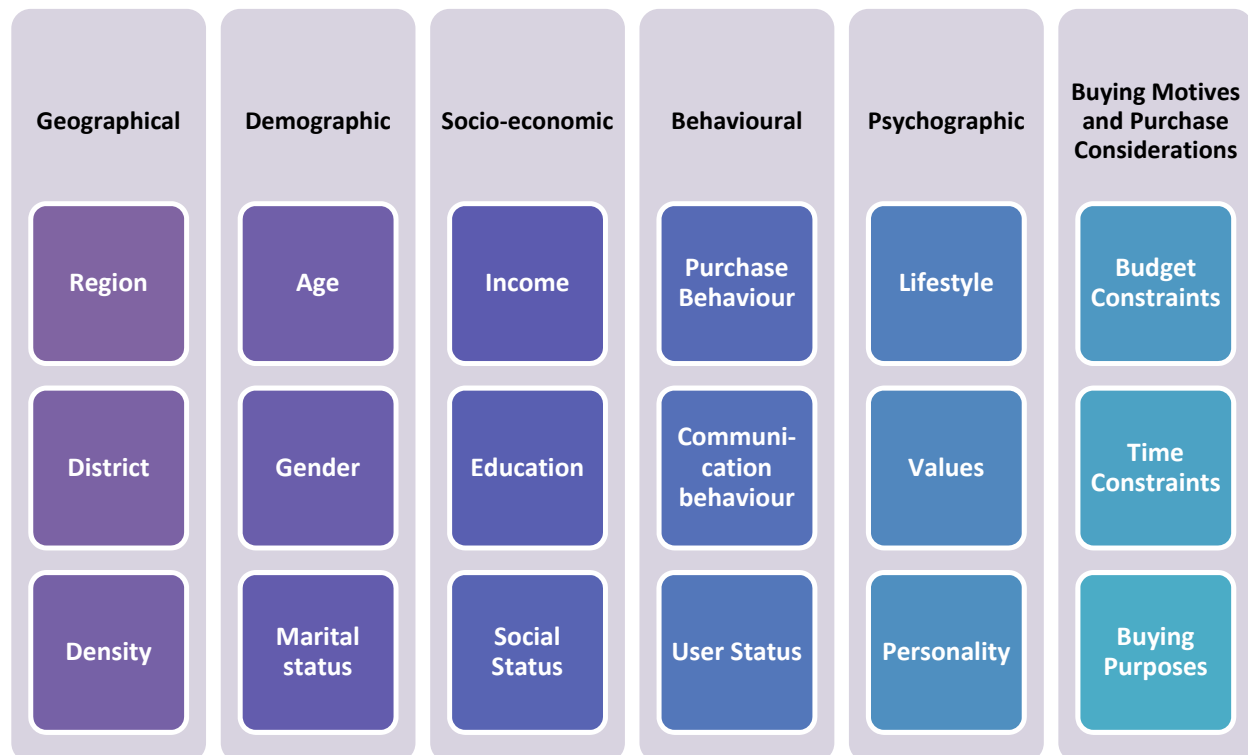
- Determine relevant criteria for strategic segmentation.
- Apply cluster analysis and discriminant analysis to do strategic segmentation for CRM.
- Apply RFM, CHAID, and CART to do tactical segmentation for CRM.

### 11.2. Strategic Segmentation Criteria

#### 11.2.1. Uncontrollable Strategic Segmentation Criteria

Segmentation criteria are used to divide up a market. In the ultimate consumer market, the usually adopted criteria are geographic, demographic, behavioural, and psychographic. Other than these criteria, some marketers use socio-economic, as well as buying motives and purchase considerations. All these types of criteria describe the exterior of a market. They are uncontrollable by marketers, but the related information could be obtained from the market through government, survey, or research firms. When doing CRM, marketers can make use of these criteria to reach relevant suspects and identify prospects. Examples are<sup>1,2</sup>:

**Figure 11-1 Examples of Strategic Uncontrollable Segmentation Criteria and Variables**



### 11.2.2. Controllable Strategic Segmentation Criteria

Other than the above uncontrollable segmentation criteria, there are some controllable criteria supplemented the segmentation strategy within CRM framework<sup>1</sup>. They are customer lifetime value, customer satisfaction, recommendation behaviours, and the likelihood of retaining the customers<sup>1</sup>. They could be collected by the marketers from the customer database, survey, focus group, etc. They could also be managed by appropriate marketing and CRM strategies.

**Figure 11-2 Examples of Strategic Controllable Segmentation Criteria and Variables**



### 11.3. Strategic Segmentation Metrics

Other than the above methods, there are some metrics that could be used to segment a market at the strategic level. Cluster analysis and discriminant analysis are usually adopted by marketers to divide up a market. These two analyses complement one another during the segmentation process<sup>1</sup>.

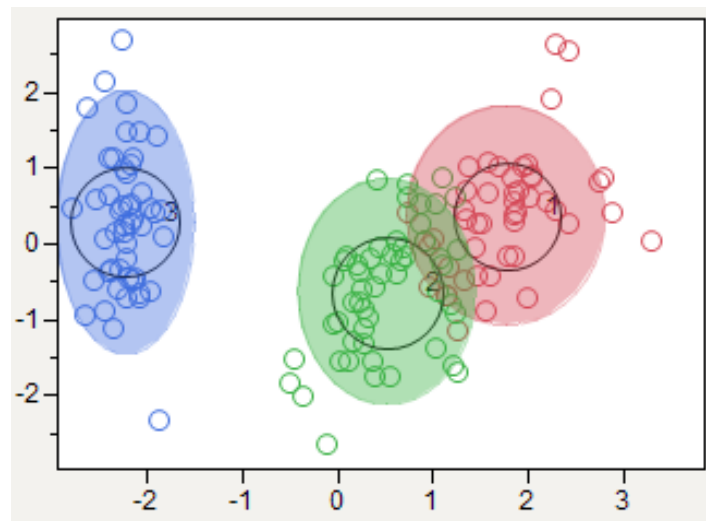
#### 11.3.1. Cluster Analysis

Cluster analysis classifies customers or prospects (subjects) in relatively homogeneous groups, which are usually called “clusters”. Each subject can only be placed in one cluster and no overlap among the clusters. It is used to explore the possible groupings of a market.

**The steps of cluster analysis are as follow:**

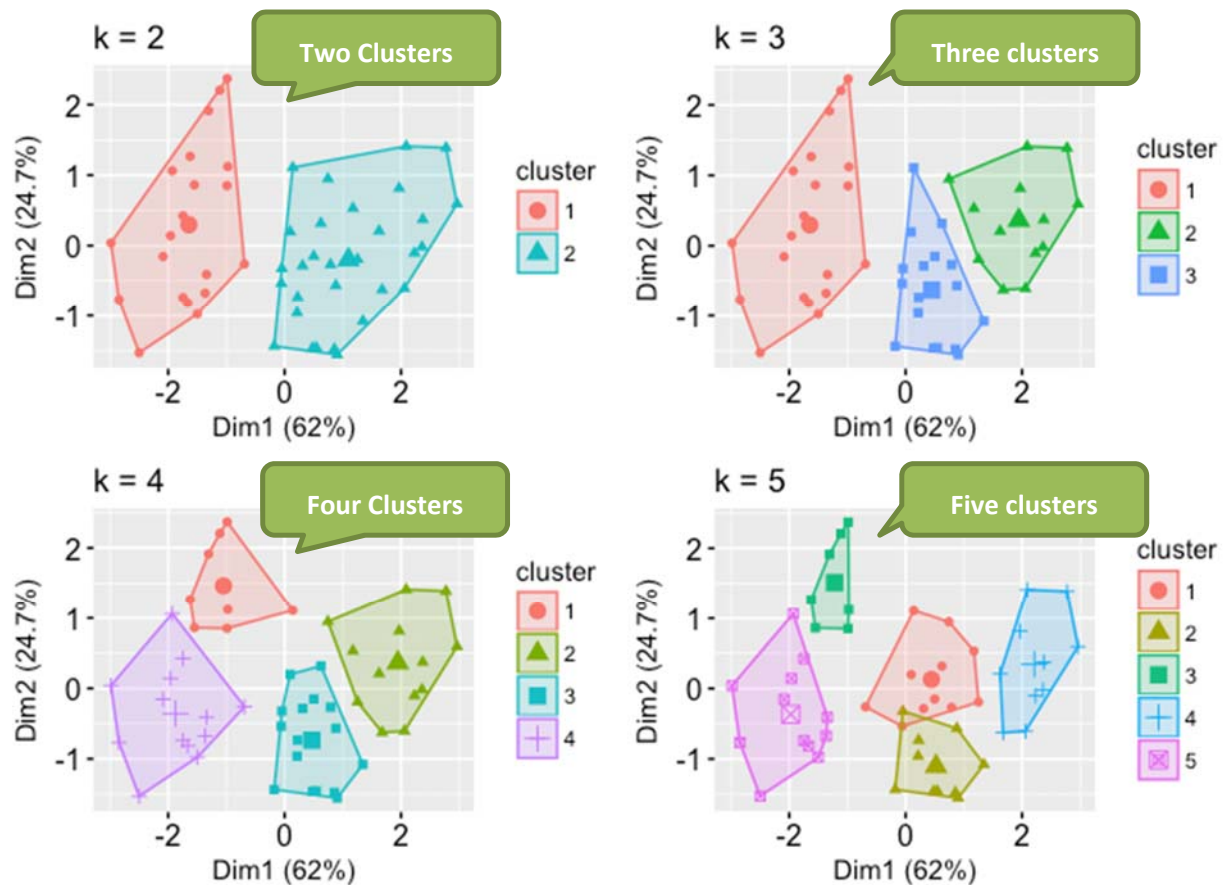
1. Researcher specifies the number of groups ( $n$ ) to be divided in a statistical programme.
2. The programme will then randomly draw ( $n$ ) subjects from data set as ( $n$ ) groups. Each group is temporality labelled, for examples Group  $a, b, c, \dots, n$ .
3. Subsequent subjects will be assigned to the group, which is closest to them in terms of distance (variance).
4. After the initial cluster solution is formulated, a repeat process begins.
5. The average scores for the segmentation criteria are calculated for each group by adding up the variances and then form a new classification of groupings.
6. The allocation of subjects is stopped until the cluster average scores reach the lowest and no more solutions.

Figure 11-3 Example of Cluster Analysis Result

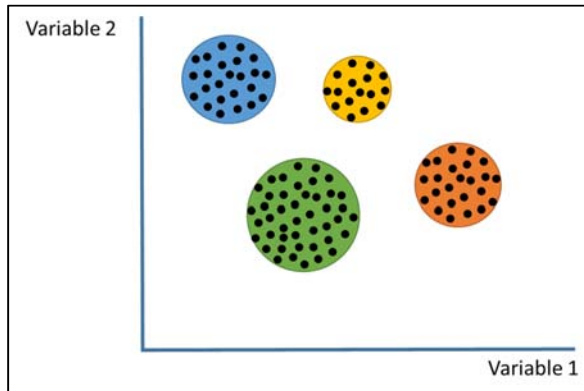


Picture Credit: Stack Exchange Inc.

Figure 11-4 Example of Cluster Analysis Process



Picture Credit: uc-r.github.io

Figure 11-5 Example of Cluster Solution<sup>1</sup>

This figure shows that the solution of a cluster analysis. Based on the result, the market could be divided into four clusters by using two segmentation variables.

The circles represent the clusters, i.e. the segments.

The dots represent the subjects, i.e. customers or prospects.

### 11.3.2. Discriminant Analysis

Discriminant analysis is used to reveal the grouping structure and understand group differences based on the grouping's information. It requires advanced knowledge of the groupings to which the subjects belong, i.e. Segments  $a, b, c, \dots, n$ . It is, therefore, a good means to test the cluster solution. The discriminant analysis could be used to verify the cluster solution<sup>1</sup>.

**The steps of discriminant analysis are usually as follow<sup>3</sup>:**

1. The average score of each cluster generated from cluster solution serves as the input of the discriminant analysis.
2. The researcher selects the choice of **prior probabilities**, which represents the expected portion of the group/community that belongs to the population. There are three common choices:
  - a. **Equal priors** imply that all of the population sizes are equal.
  - b. **Arbitrary priors** rely on the investigator's beliefs regarding the relative population sizes.
  - c. **Estimated priors** estimate the portion of the community according to the number of observations from the population as included in the data set.
3. Use Bartlett's test to determine if variance-covariance matrices are homogeneous for the two or more populations involved. The result of this test will determine whether to use **Linear Discriminant Analysis** or **Quadratic Discriminant Analysis**.
  - a. **Linear Discriminant Analysis** is used for homogeneous variance-covariance matrices.
  - b. **Quadratic Discriminant Analysis** is used for heterogeneous variance-covariance matrices.
4. The system estimates the parameters of the conditional probability density functions.
5. The system computes discriminant functions for classifying the new subject into one of the known populations.
6. The system uses cross-validation to estimate misclassification probabilities.
7. The system classifies observations with unknown group memberships.
8. If the grouping results of the discriminant analysis are the same way as the result of cluster analysis, we can conclude that the solution is reliable (above 70%). If the matching results reached 90%, we could conclude that the classification solution is highly reliable. If the result is less than 70%, it would be better to redo the cluster analysis and reconfirm by discriminant analysis.

**Figure 11-6 Example of Classification Results**

Discriminant Solution			
Cluster Solution	Number of Cases	Segment A	Segment B
Segment A	840	777 92.5%	63 7.5%
Segment B	690	78 11.3%	612 88.7%
Percentage of correctly classified cases: 90.8%			

There are a total of 1530 customers (840 + 690) in this company. The results of cluster analysis showed that there are 840 customers classified into Segment A, while the remaining 690 customers belong to Segment B. Based on the cluster average scores of Segments A and B, the discriminant analysis determined a slightly different result. There should be 855 (777 + 78) cases classified into Segment A, and 675 (63 + 612) cases belong to Segment B.

In Segment A, there are 92.5% matching cases ( $777/840 \times 100\%$ ). To be more specific, there are 92.5% Segment-A cases resulted in cluster analysis are also classified into Segment A in discriminant analyses. However, there are 7.5% (63/840\*100) Segment A cases resulted in cluster analysis are classified into Segment B in discriminant analyses.

In Segment B, there are 88.7% matching cases ( $612/690 \times 100\%$ ). To be more specific, there are 88.7% Segment B cases resulted in cluster analysis are also classified into Segment B in discriminant analyses. However, there are 11.3% (78/690\*100) Segment B cases resulted in cluster analysis are classified into Segment A in discriminant analyses.

Overall, there are 90.8% matched cases identified from both analyses, which are considered as highly reliable classification.

**Figure 11-7 Game Corner**

**Instruction: Calculate the Five Percent Figures (Show your steps and round your answers to 1 d.p.)**

Discriminant Solution			
Cluster Solution	Number of Cases	Segment A	Segment B
Segment A	1234	1201 Unknown Percent #1	33 Unknown Percent #2
Segment B	567	53 Unknown Percent #3	514 Unknown Percent #4
Percentage of correctly classified cases: Unknown Percent #5			

Unknown Percent #1 =

Unknown Percent #2 =

Unknown Percent #3 =

Unknown Percent #4 =

Unknown Percent #5 =

## 11.4. Tactical Segmentation Techniques

After strategic segmentation, customers could be arranged in order depending on their annual spending amount, the frequency of purchase, registration duration, the number of transactions, etc. Based on the list or classification, marketers can use it for a direct marketing campaign. The following are three major tactical segmentation techniques that could be used to compile the customer list.

### 11.4.1. RFM

RFM stands for Recency Frequency Monetary value. It is frequently used to identify the most attractive target for a marketing campaign. RFM value is calculated by using customers' behavioural data; therefore, it could accurately predict the customer response to a marketing campaign. Also, this technique employs data which is recorded in the customer database. It is costless to the marketers. However, there is a risk that the same group of customers, "best buyers", are usually selected for several marketing campaigns, and they will experience an excessive "mail" pressure.

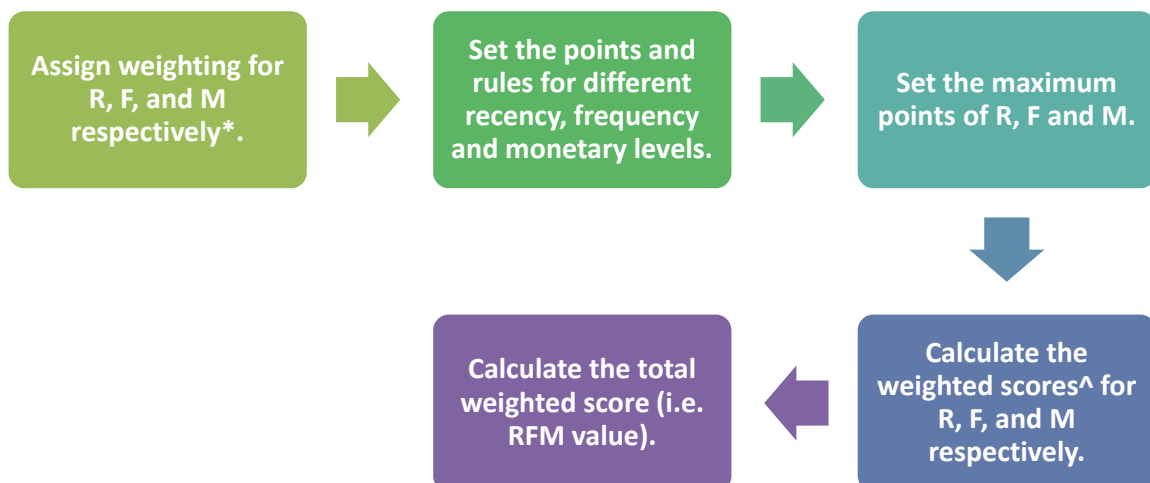
**Figure 11-8 Terms of RFM**

	Explanation	Determination of Scores
<b>Recency</b>	The last purchase date	Assign higher scores for the purchases made in recent.
<b>Frequency</b>	Purchase frequency	Assign higher scores for more frequent purchase
<b>Monetary</b>	The amount spent for the last $n$ years	Assign higher scores for a greater annual amount spent

\* Marketers can specify the number of years for measuring the monetary value.

There are five steps of calculating RFM value of each customer.

**Figure 11-9 Steps of Calculating RFM Value**



\* The weighting of R, F, and M could depend on the rapidity of customer response rate drops. A higher weighting is assigned to the metric (R, F, or M) for which the customer response rate declines more quickly.

^ Weighted score = weighting  $\times$  points.

Figure 11-10 Examples of RFM Calculation

	Weight	Points	Condition
Recency of the transaction	2	20	Shopped within last 3 months
		10	Shopped within last 6 months
		5	Shopped within last 9 months
		3	Shopped within last 12 months
		1	Shopped within last 24 months
Frequency of transactions	5	Points = Number of purchases within 24 months $\times$ 4 Maximum 20 points	
Monetary value of transactions	3	Points = Dollar value of purchases within 24 months $\times$ 10% Maximum 20 points	

Remark #1

Remark #2

Data:

Customer	Recency (Weighting = 2)			Frequency (Weighting = 5)			Monetary (Weighting = 3)			Total Weighted Scores
	Months	Points	Weighted Scores	Number	Points	Weighted Scores	Amount	Points	Weighted Scores	
Alligator	6	10	20	4	16	80	\$1200	20	60	160
Bear	12	3	6	6	20	100	\$6000	20	60	166
Camel	5	10	20	6	20	100	\$4500	20	60	180
Dolphin	11	3	6	3	12	60	\$100	10	30	96

Remark #3

Remark #4

Remark #3

Remark #4

Remark #3

Remark #4

Remark #5

Remarks:

1. The above two tables show the example of RFM calculation. Marketers have to first assign the weighting of Recency, Frequency, and Monetary, respectively. In this case, the weightings are 2, 5, and 3 accordingly. The weighting of frequency is the highest.
2. Next, marketers have to set the conditions and points of these three values. For recency, 20 points are assigned to customers who have made a purchase in the last 3 months; 10 points to those who have made a purchase within the last 6 months and so on. The frequency point is the number of purchases (within 24 months) multiplied by 4, but the maximum point is capped at 20. The monetary value is 10 per cent of the dollar value of purchases within 24 months. Also, the maximum point is capped at 20.
3. Marketers can calculate the points of each customer.
4. Marketers can then multiply the points by the weighting of each value.
5. The total weighted scores could be derived by adding up all three weighted scores.
6. Based on the results, we can conclude that Camel got the highest RFM value and then followed by Bear and Alligator, and lastly Dolphin. Marketers can arrange this customer list in descending order from the largest value to the least, and then select appropriate candidates for different marketing campaigns.

**Figure 11-11 Game Corner****Instruction: Calculate the RFM Values and then answer the questions.****CarCar Skincare Company**

	Weight	Points	Condition
<b>Recency of the transaction</b>	<b>2</b>	20	Shopped within last 3 months
		10	Shopped within last 6 months
		5	Shopped within last 9 months
		3	Shopped within last 12 months
		1	Shopped within last 24 months
<b>Frequency of transactions</b>	<b>3</b>	Points = Number of purchases within 24 months $\times$ 4 Maximum 20 points	
<b>Monetary value of transactions</b>	<b>4</b>	Points = Dollar value of purchases within 24 months $\times$ 1% Maximum 20 points	

Customer	Recency (Weighting = 2)			Frequency (Weighting = 3)			Monetary (Weighting = 4)			Total Weighted Scores
	Months	Points	Weighted Scores	Freq	Points	Weighted Scores	Amount	Points	Weighted Scores	
<b>Elephant</b>	1			1			\$2000			
<b>Fox</b>	5			3			\$800			
<b>Giraffe</b>	9			5			\$4000			
<b>Hippo</b>	14			2			\$500			

**Question 1: Identify the customer with the highest RFM value for CarCar Skincare Company to deliver the greatest benefits to him/her.**

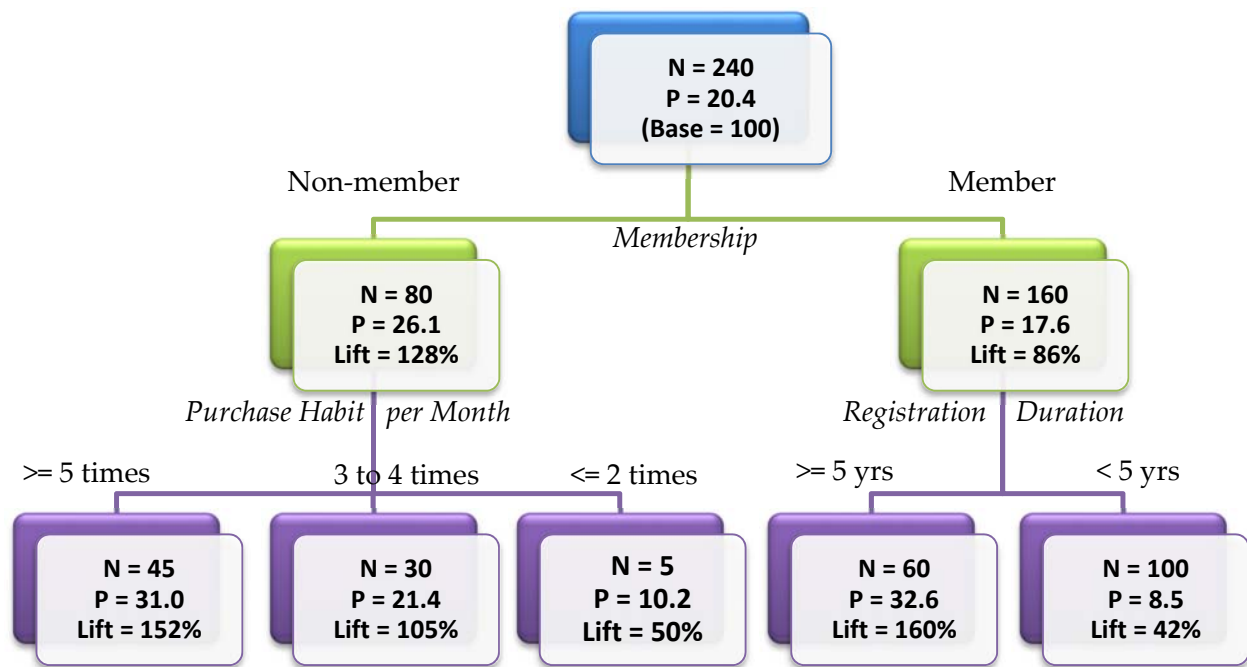
**Question 2: CarCar Skincare Company decides to deliver a marketing campaign to develop relationships with newly joined customers, who have made purchases in the last six months. Identify the most potential customer as the first batch of promotion target to this campaign.**

**Question 3: Based on the RFM results, CarCar Skincare Company decides to divest the least potential customers. Who would be the least potential customer in this case?**

### 11.4.2. CHAID

CHAID stands for Chi-squared Automated Interaction Detection. It categorises customers by using a tree diagram. The response to a marketing campaign is shown for the entire customer database<sup>1</sup>. Customers are then split into groups, and the respective response rate is included. It helps marketers to identify potential groups for any direct marketing campaign. As compared with RFM analysis, CHAID can achieve better response rate from customers if the best 25 to 50 per cent of the customers were selected from the database for a marketing campaign<sup>1</sup>. Also, it can divide two or more groups at each level of analysis. However, it can only work with nominal, ordinal or interval data. Ratio data (data with zero values) or data codes that are not in sequence could not be processed. Also, there should be a maximum of 15 categories/groups of each data/level.

Figure 11-12 Example of CHAID



N = number of prospects/customers in the group

P = Predicted penetration of prospects/customers

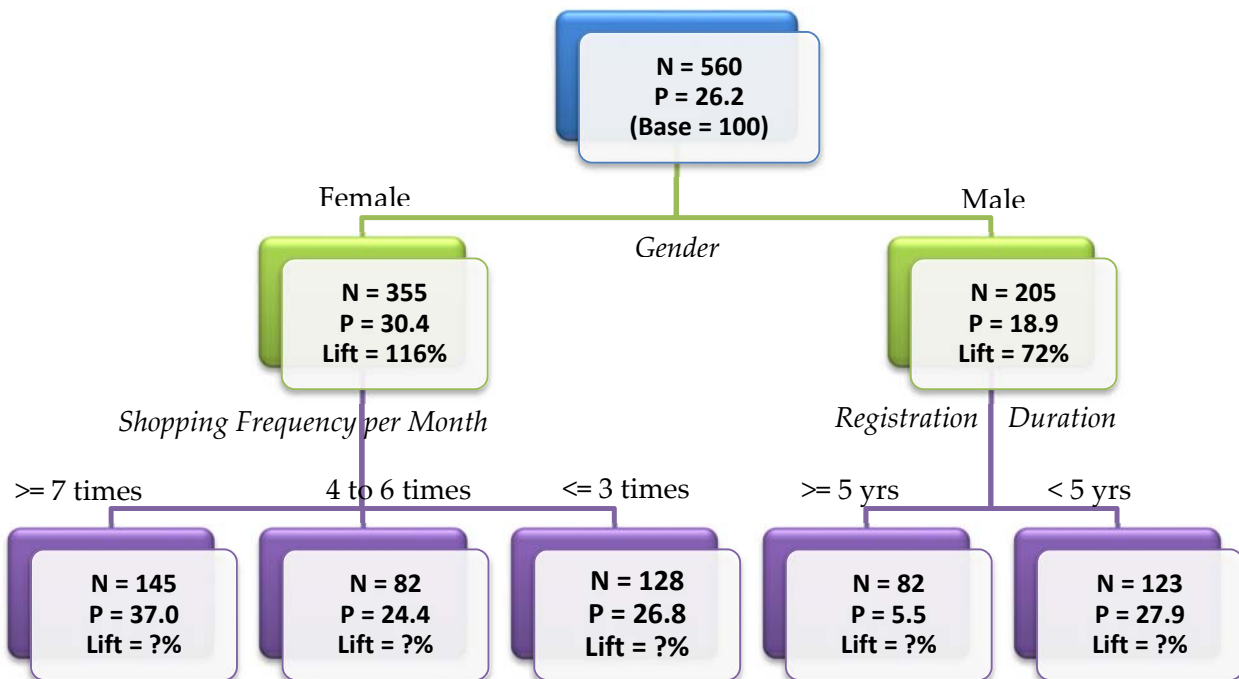
Lift = Predicted uptake to prospects in sub-group / Base Rate \* 100%

#### Interpretation:

1. The number of customers is 240. Predicted Penetration Rate is 20.4.
2. There are 80 non-members. Predicted Penetration Rate is 26.1 and Lift is 128% ( $26.1/20.4 \times 100\% = 128\%$ ), showing that this group of prospects will result in 128% more business than random direct marketing campaign.
3. Among the non-members, the Predicted Penetration Rate of those who purchase 5 times or more in a month is 31.0 and the Lift is 152% ( $31.0/20.4 \times 100\%$ ). It shows that the response is the highest among all sub-groups. It has the highest respond potential to a direct marketing campaign among non-member group.

Figure 11-13 Game Corner

**Instruction: List the segment from the highest potential to the least potential**



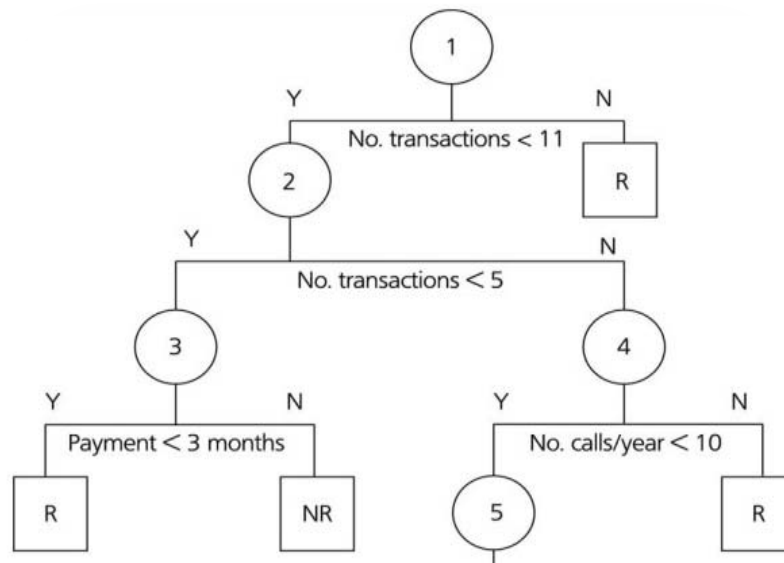
Calculate the “Lift” per cent for the above unknowns and then list out the segments from the most potential (1<sup>st</sup>) to the least potential (5<sup>th</sup>). Also, list out their respective descriptions, Predicted Penetration Rates, and “Lift”.

	Segment	Predicted Penetration Rate	Lift (%)
1 <sup>st</sup> Potential Segment			
2 <sup>nd</sup> Potential Segment			
3 <sup>rd</sup> Potential Segment			
4 <sup>th</sup> Potential Segment			
5 <sup>th</sup> Potential Segment			

### 11.4.3. CART

CART stands for Classification and Regression Tree. It is a binary decision tree, which means it splits the data set into two groups for each variable or level. The lowest level in the decision tree is reached if a further division is no longer useful because the size of segments has become too small<sup>1</sup>. CART can work with nominal, ordinal, interval, and even ratio data. However, it splits the database into at most two groups at each level of analysis.

Figure 11-14 Example #1 of CART



R = response; is a buyer  
 NR = non-response; not a buyer  
 Circle / Oval = decision  
 Square = final station  
 Y = Yes; N = No

Figure 11-15 Example #2 of CART

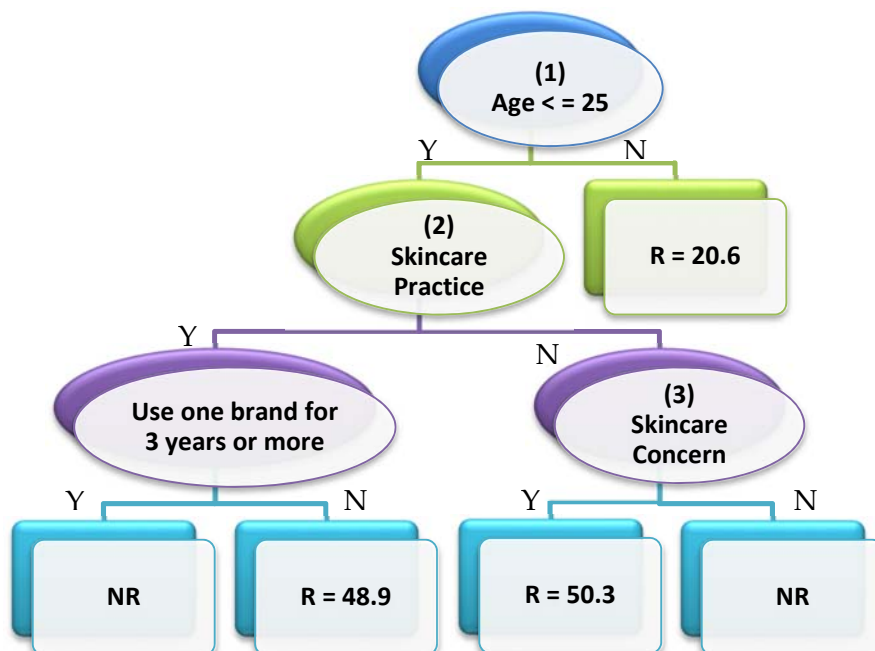
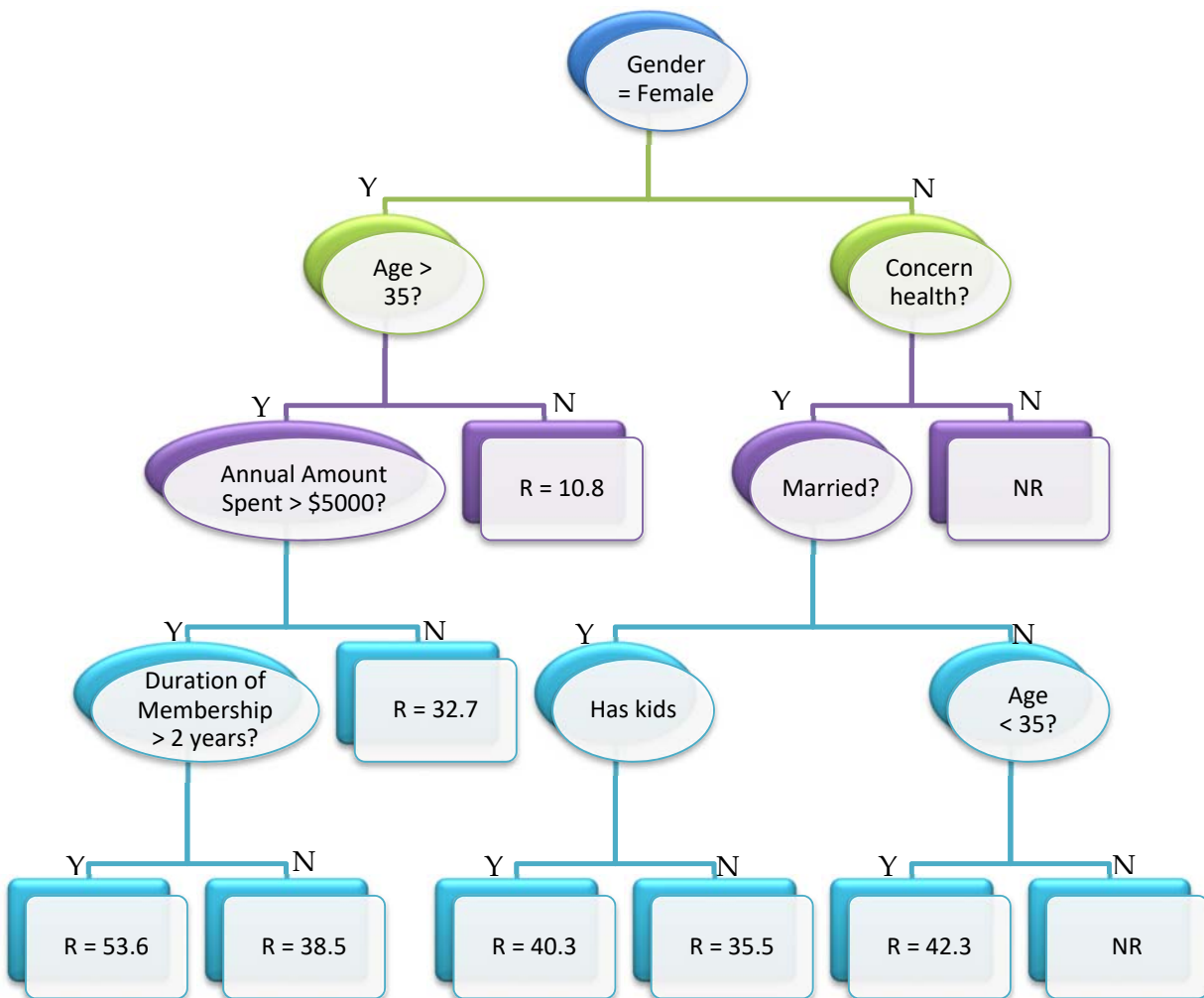


Figure 11-16 Game Corner

**Instruction:** Identify the potential segment from the following CART analysis and suggest an appropriate offer for this segment.

**Case background:** MaMaChan Healthy Lifestyle is a healthy food retailer. Recently, it cooperates with a fitness centre to organise a Healthy Lifestyle Programme. It is now looking for potential members for a promotional campaign. The manager used CART analysis to classify its members into groups by using several factors. Based on the analysis chart, identify and describe the second potential segment, and then suggest an attractive offer to motivate this segment to join the promotional campaign.



	The most potential segment	The second potential segment
Describe the segment:		
Attractive offer to motivate this segment to join the campaign:		

## 11.5. Chapter Summary

1. Segmentation could be classified into strategic and tactical levels. Cluster analysis and discriminant analysis are the major statistical techniques for strategic segmentation. They have some differences in doing segmentation.
2. RFM, CHAID and CART are three major tactical segmentation techniques. They could be used to identify potential groups of customers for a specific marketing campaign.
3. RFM is used to list the customers in order according to their recency, frequency and monetary value.
4. CHAID is a tree diagram used to classify into two or more groups at each level of analysis.
5. CART is a binary tree diagram used to categorise customers into two groups at each level of analysis.

## 11.6. Key Terms

**CART** stands for Classification and Regression Tree. It is a binary decision tree, which means it splits the data set into at most two groups for each variable.

**CHAID** stands for Chi-squared Automated Interaction Detection. It categorises customers by using a tree diagram.

**Cluster Analysis** classifies customers or prospects (subjects) in relatively homogeneous groups, which are usually called “clusters”.

**Discriminant Analysis** is used to reveal the grouping structure and understand group differences based on the grouping’s information.

**RFM** stands for recency frequency monetary value.

## 11.7. Concept Check Quiz

1. Describe any two uncontrollable segmentation criteria and respective variables.
2. Describe any two controllable segmentation criteria and respective customer groupings.
3. Describe any three segmentation guidelines proposed by Kotler and Keller.
4. Explain the steps of cluster analysis.
5. Describe the differences between cluster analysis and discriminant analysis.
6. Describe R, F, and M of the RFM segmentation technique.
7. Describe the differences between CHAID and CART.
8. Explain the pros and cons of the RFM segmentation technique.
9. Explain the pros and cons of CHAID segmentation technique.
10. Explain the pros and cons of CART segmentation technique.

### 11.8. Concept Challenge Quiz

1. Fujifilm recruited a large group of youngsters and developed a database to keep customer profiles. In the database, Fujifilm recorded the following data, and it is expected that there are three or more segments among the members. Based on the data, suggest the best tactical segmentation technique for Fujifilm to reach the groups with better response rates. Provide reasons to justify your suggestion.

<b>Name</b>	
<b>Email Address</b>	
<b>Contact Phone No.</b>	
<b>Residential Address</b>	
<b>Age Group</b>	<input type="checkbox"/> <14 <input type="checkbox"/> 14 – 18 <input type="checkbox"/> 19 – 23 <input type="checkbox"/> 24 – 28 <input type="checkbox"/> 29 or above
<b>Education</b>	<input type="checkbox"/> Primary or below <input type="checkbox"/> Secondary <input type="checkbox"/> Tertiary or University <input type="checkbox"/> Master or above
<b>Media Preference</b>	<input type="checkbox"/> Magazine <input type="checkbox"/> Facebook <input type="checkbox"/> Instagram <input type="checkbox"/> YouTube <input type="checkbox"/> Newspaper <input type="checkbox"/> Website
<b>Purchased Items of Each Transaction</b>	
<b>Purchased Amount of Each Transaction</b>	
<b>Purchase Date and Time of Each Transaction</b>	
<b>Responsible Staff</b>	
<b>Purchase Location and Time of Each Transaction</b>	
<b>Response to Each Campaign</b>	

**Hint:** Answers should specify one tactical segmentation technique for Fujifilm. Suggestion and reasons should focus on the response rate.

2. Based on the above data, Fujifilm decided to adopt CART to classify its customers into two major groups for each variable. Do you think that it is an appropriate tactical segmentation technique? Why or why not? Which data could be used to segment the database?

**Hint:** Answers should base on the data in the database to justify the appropriateness of using CART in this case. Understanding the types of data in the above case is the key to get correct answers. It is also possible to reclassify the data into an appropriate standard for doing the CART analysis.

3. Based on the following cluster analysis and discriminant analysis results, calculate all unknown per cent figures and justify the accuracy of the results.

Groupings Obtained from Cluster Analysis	Number of Cases	Groupings Obtained from Discriminant Analysis		
		Segment A	Segment B	Segment C
Segment A	1,234	1,137 (Unknown Percent #1)	87 (Unknown Percent #2)	10 (Unknown Percent #3)
Segment B	998	67 (Unknown Percent #4)	899 (Unknown Percent #5)	32 (Unknown Percent #6)
Segment C	805	40 (Unknown Percent #7)	62 (Unknown Percent #8)	703 (Unknown Percent #9)
Percentage of Correctly Classified Cases: (Unknown Percent #10)				

**Hint:** Based on the calculation rule of the notes and exercises to calculate these per cent figures. Justification of the result accuracy should be based on the correct figure.

### 11.9. References

1. Peelen, E. & Beltman R. (2013). *Customer Relationship Management* (2<sup>nd</sup> ed.). Harlow, England: Pearson.
2. Kotler, P. & Keller, K. L. (2012). *Marketing Management* (14<sup>th</sup> ed.). Upper Saddle River, N.J.: Pearson Prentice Hall.
3. The Pennsylvania State University (2015). *Discriminant Analysis Procedure*. Retrieved August 26, 2015, from <https://onlinecourses.science.psu.edu/stat505/node/92>

### 12.1. Chapter Objectives

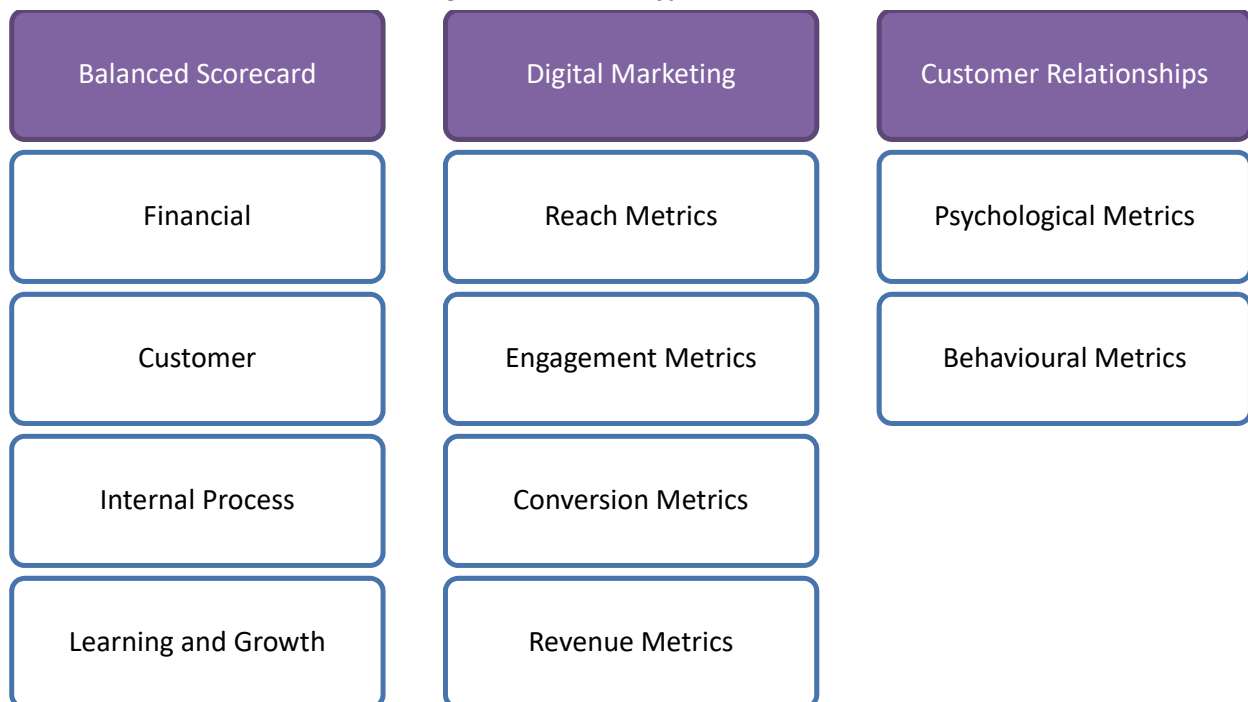
- Apply various metrics for measuring the effectiveness of CRM.

### 12.2. Metrics for Measuring the Effectiveness of CRM Campaign

The results of CRM in keeping customer relationships is a concern among some marketers. They questioned its effectiveness in generating the expected financial outcomes. In this digital era, there are some measurable metrics and analytical data available for marketers to retrieve in real-time and analyse accordingly<sup>5</sup>. In this chapter, three popular categories of metrics will be introduced for marketers: Balanced Scorecard, Metrics for Digital Marketing, and Metrics for Customer Relationships. It would be best to make use of these tools as a whole. Marketers could, therefore, make use of the data generated from these metrics to make improvement and establish a better and more profitable CRM campaign<sup>5</sup>.



**Figure 12-1 Three Types of Metrics**



### 12.3. Balanced Scorecard

Considering both psychological and behavioural metrics are critical to the success of CRM. However, Kaplan and Norton (1992) argued that it is important for marketers to understand three other important measures to understand the effectiveness of CRM: customer outcomes, internal business process and future growth orientation<sup>1,3</sup>. They developed “Balanced Scorecard” as a strategic performance management tool to reflect the relationships among financial objectives, customer outcomes, internal business processes, as well as learning and growth in achieving CRM success.

**Figure 12-2 Four Perspectives of Balanced Scorecard (with Examples)**

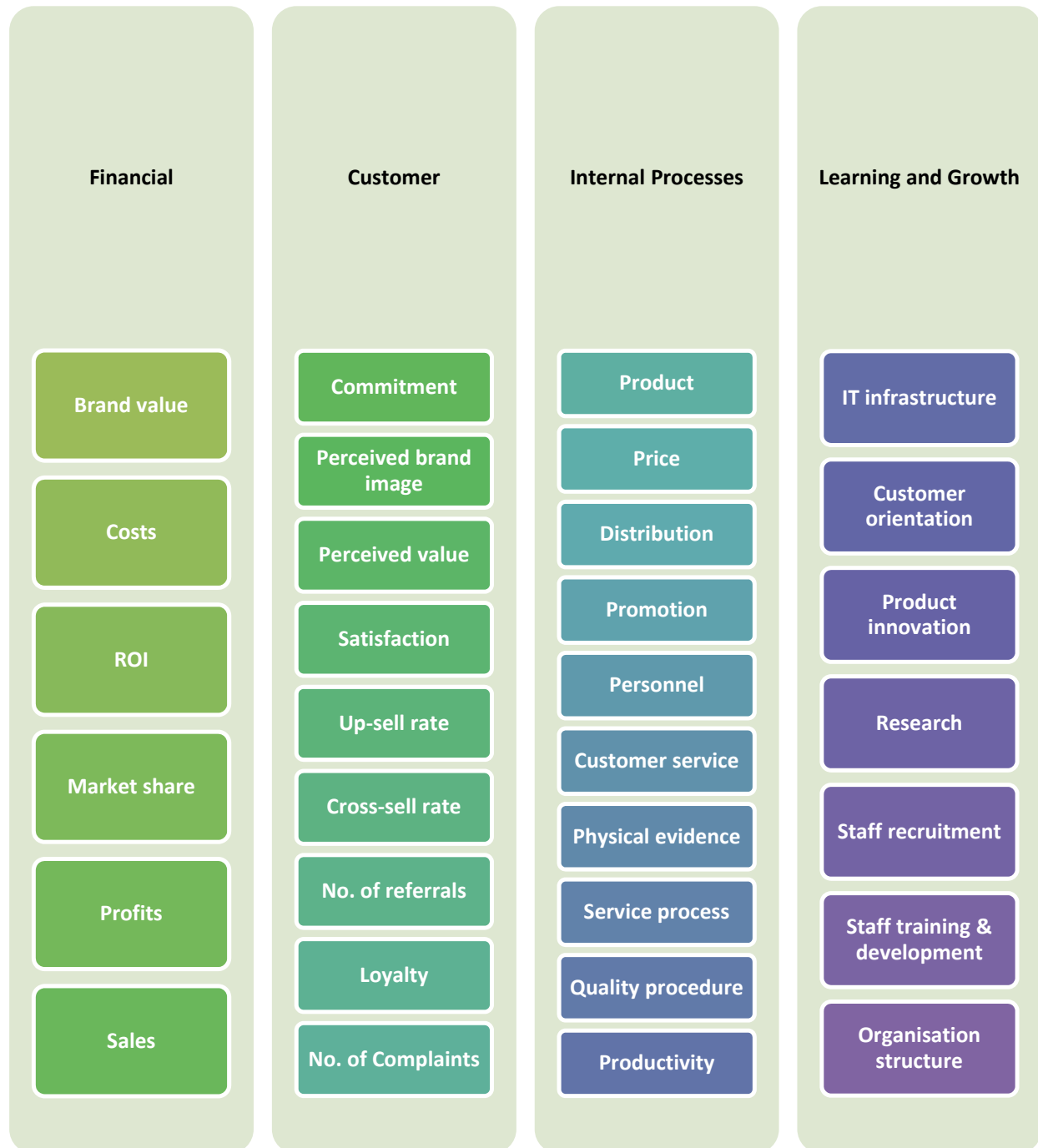
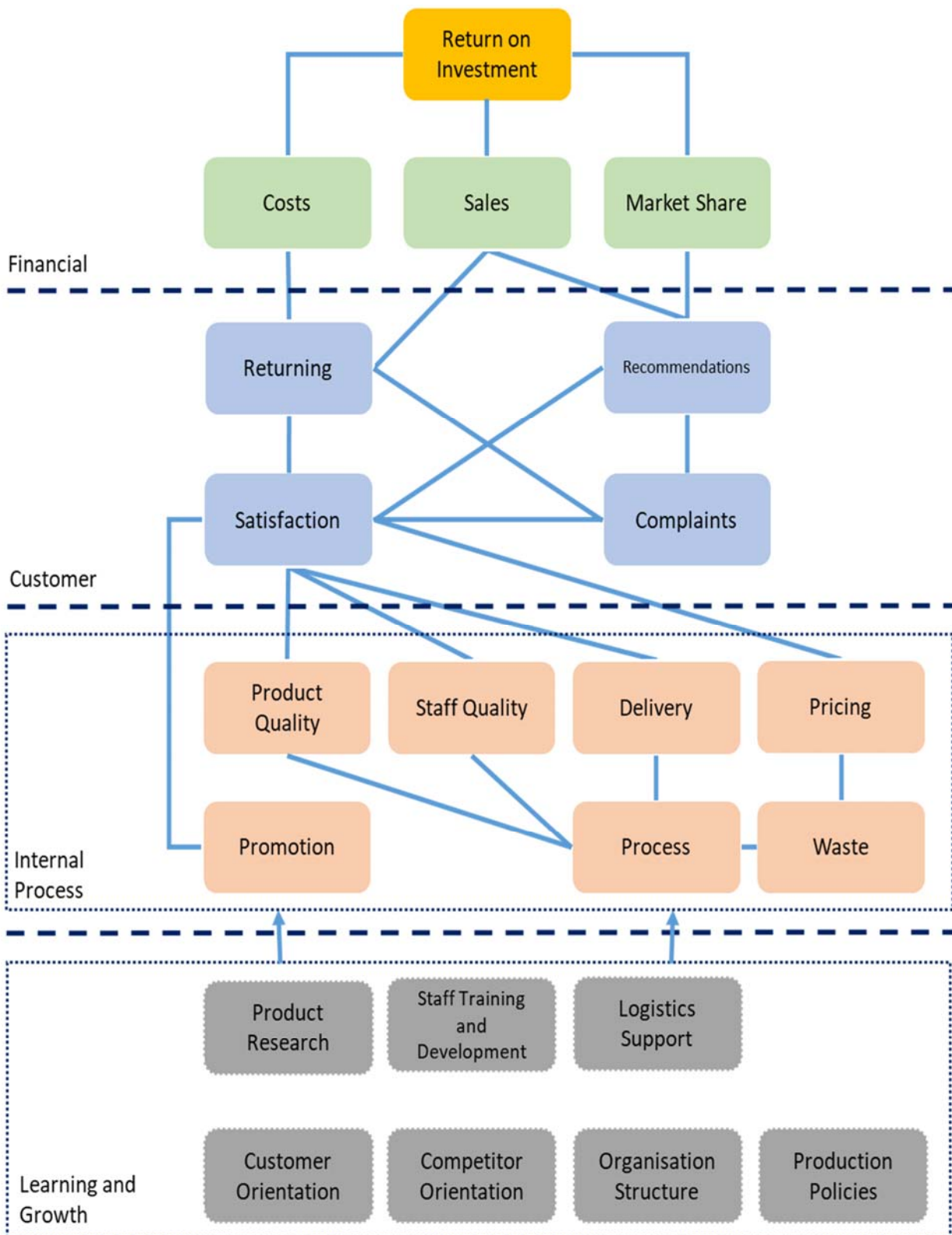


Figure 12-3 Example #1 of Balanced Scorecard<sup>4</sup>

## 12.4. Metrics for Digital Marketing

For measuring the performance of a digital marketing campaign, there are four major categories of metrics: Reach, Engagement, Conversion, as well as Revenue and Costs. Different categories of metrics could be used to measure a campaign from reaching prospects, attracting their attention inducing a purchase, converting a prospect into a customer, and generating a revisit or repurchase.

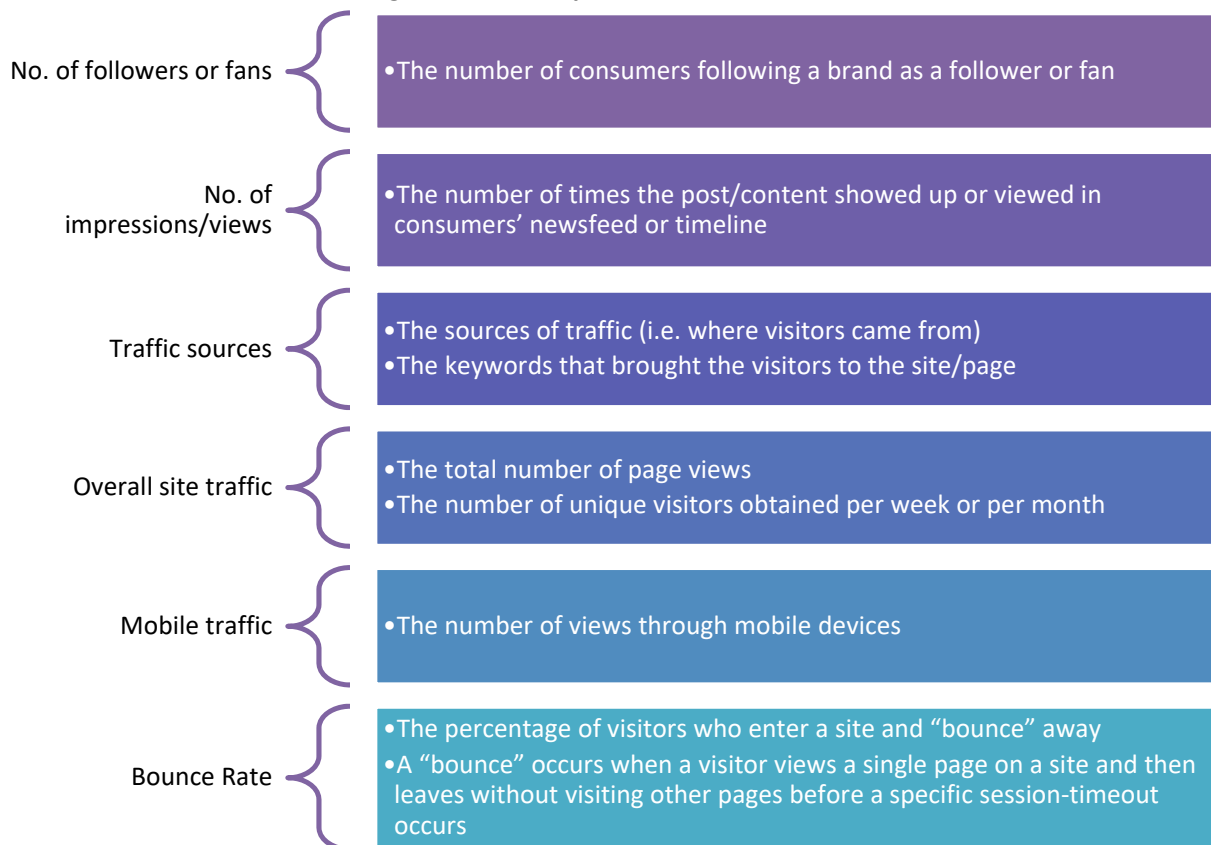
**Figure 12-4 Four Major Categories of Metrics for Digital Marketing**



### 12.4.1. Reach Metrics

Reach metrics show how many people are potentially interested in the post, site, page, etc. Examples may include the number of followers to a fan page, number of views on a post, the sources of traffic that visitors came from, and the rate of customers bouncing away from the website after a very short visit.

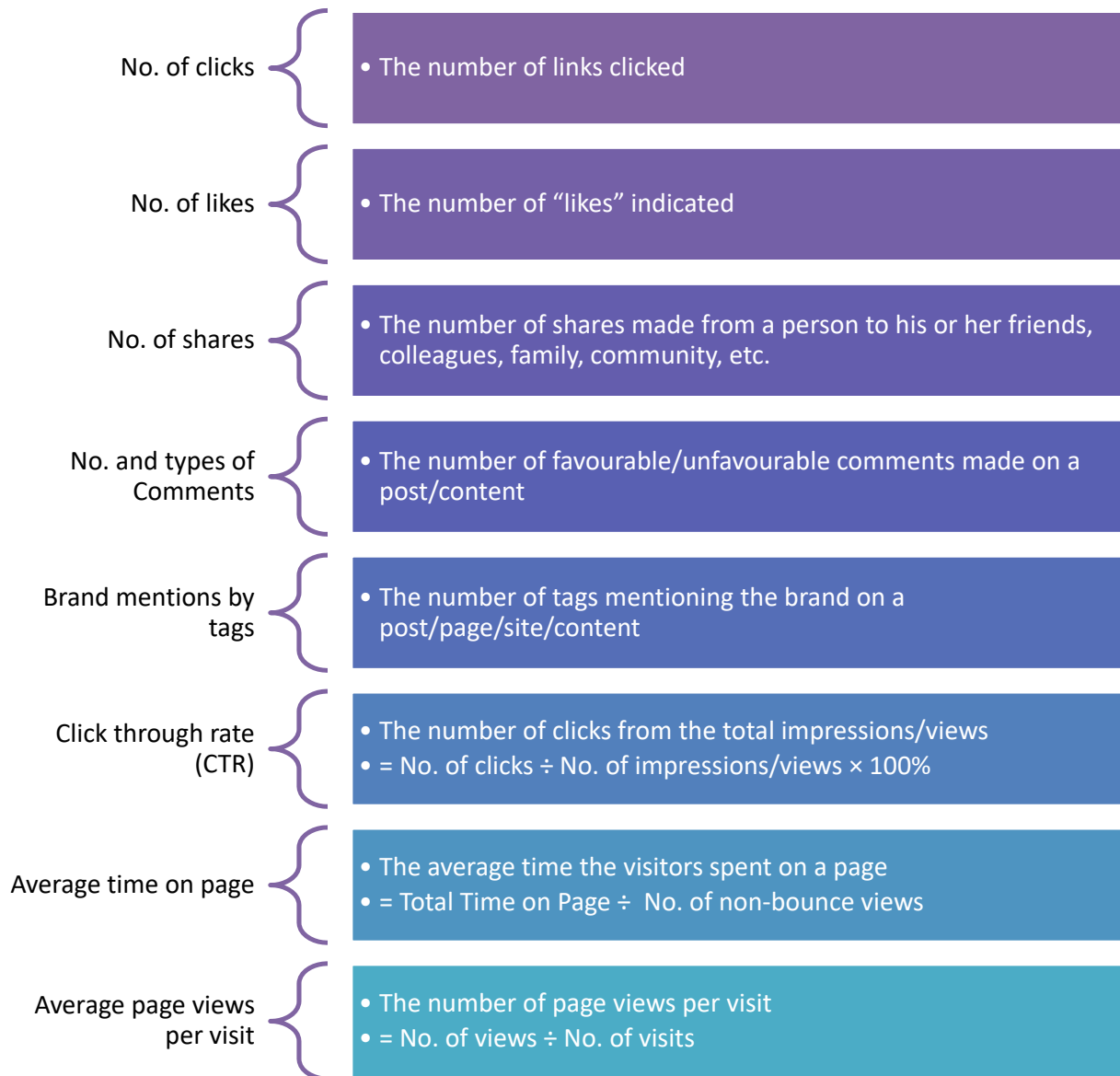
**Figure 12-5 Examples of Reach Metrics**



### 12.4.2. Engagement Metrics

Engagement metrics measure the level of engagement between customers and the brand. Examples may include the number of clicks to an URL link, the number of likes towards a post, the number of shares of a newsfeed, the number and types of comments towards a post, the number of tags mentioning the brand, etc.

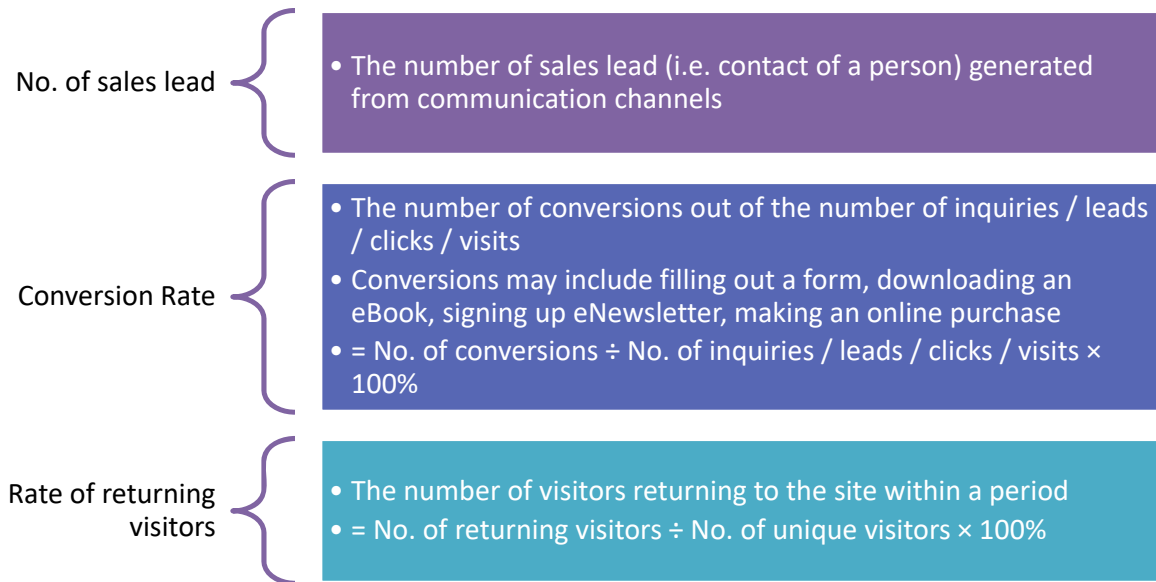
**Figure 12-6 Examples of Engagement Metrics**



### 12.4.3. Conversion Metrics

Conversion metrics refer to the number of engaged fans are actually interested in taking further action, e.g. providing contacts, making a purchase, or returning to the site. Examples may include the number of sales lead generated, the conversion rate, and the rate of returning visitors. About the conversion rate, it could be applied to different customer actions, like filling a subscription form, making a purchase, etc.

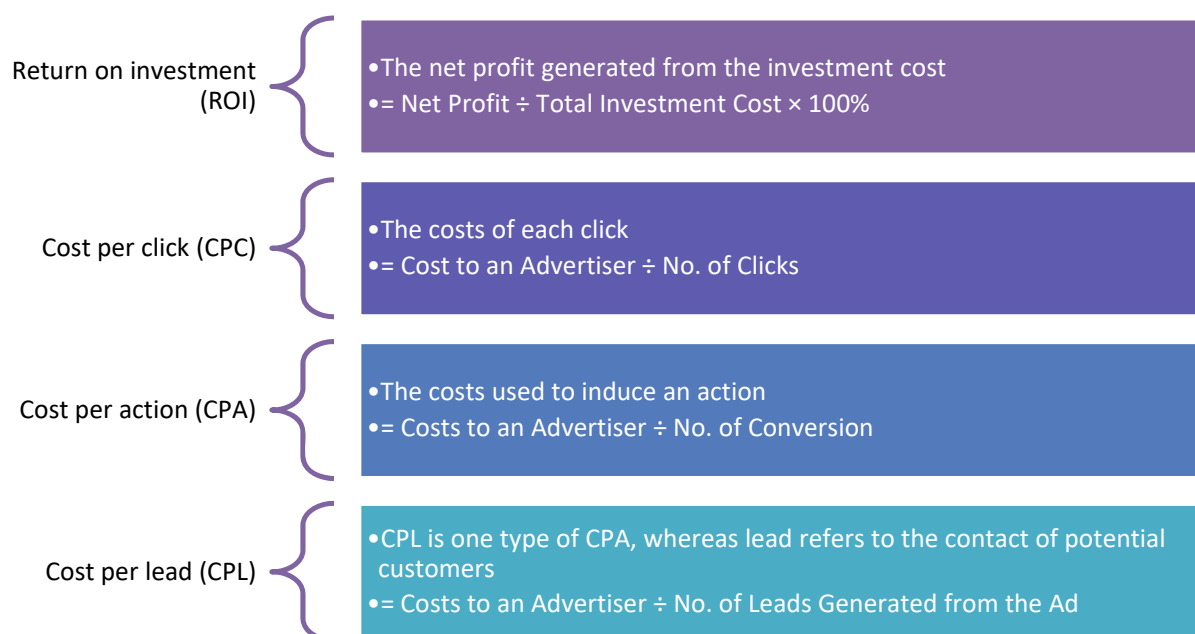
**Figure 12-7 Example of Conversion Metrics**



### 12.4.4. Revenue and Cost Metrics

Revenue and cost metrics provide information on whether a particular campaign is profitable or costly, and therefore, marketers can adjust and improve the contents for better user engagement, higher conversion and bigger revenues.

**Figure 12-8 Examples of Revenue and Cost Metrics**



**Table 12-1 Game Corner*****Instruction: Calculate the metrics for the case.***

Happy Store recently received a report listing out the following data about its recent promotion in a newspaper app diverting viewers to a sales promotion page on its online shop:

Report 1: App Metrics	Performance of Happy Store
No. of Impressions	1000
No. of clicks	500
Cost to the newspaper app for the clicks	\$250

Report 2: Web Page Metrics	Performance of Happy Store
No. of visits	485
No. of views	654
- No. of bounce views	22
- No. of non-bounce views	632
Total time on page	11575 minutes
No. of unique visitors	527
No. of sales leads generated	386
No. of sales converted among each unique visitor	232

Metrics Calculation	Performance of Happy Store
Click through rate (CTR) of the app post	
Average time on page	
Average page views per visit	
No. of sales lead	
Conversion rate of sales based on the no. of clicks	
Conversion rate of sales based on the no. of visit	
Conversion rate of sales based on the no. of leads generated	

**Table 12-2 Game Corner****Instruction: Calculate the metrics for the case.**

B&amp;B Fashion collected the following data of its online shop:

Web Page Metrics	Performance of B&B Fashion
No. of visits	5000
No. of visitors	4000
No. of unique visitors	3200
No. of returning visitors	2800

Metrics Calculation	Performance of B&B Fashion
Rate of returning visitors	

**Table 12-3 Game Corner****Instruction: Calculate the metrics for the case.**

Fortune Supermarket collected the following data of its online promotion campaign:

Web Page Metrics	Performance of Fortune Supermarket
Cost to an ad on a third party site	6000
No. of clicks	500
No. of leads	450
No. of visitors filling out a subscription form	300
Total investment costs of the campaign	10000
Net Profit (= Sales Revenue - Costs)	50000

Metrics	Performance of Fortune Supermarket
Return on investment (ROI)	
Cost per click (CPC) for the third party site	
Cost per action (CPA) for the third party site	
Cost per lead (CPL) for the third party site	

## 12.5. Metrics for Customer Relationships

### 12.5.1. Psychological Metrics

Customer metrics for measuring the effectiveness of CRM could be characterised as psychological or behavioural. Examples of psychological measures include quality perception, value perception, satisfaction, loyalty intention and attitudinal loyalty. There are many measurement scales developed by scholars to assess these factors, and they are usually measured in an interval scale.

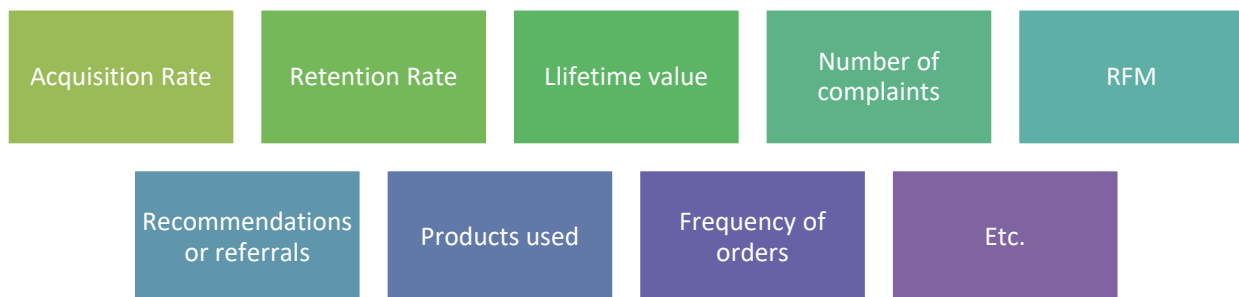
**Figure 12-9 Examples of Psychological Metrics for Customer Relationships**



### 12.5.2. Behavioural Metrics

Behavioural metrics measure the actual behaviour of consumers, users, or customers. They provide an objective prediction of consumer behaviours.

**Figure 12-10 Examples of Behavioural Metrics for Customer Relationships<sup>1</sup>**



#### 12.5.2.1. Acquisition Rate

When a firm targets at a new group of customers in a marketing campaign, the acquisition rate is the key performance indicator to evaluate the effectiveness of the acquisition campaign<sup>1,2</sup>.

Example: Chimpanzee Skincare Company sent out 50,000 direct mails to females aged 18 to 25 about its new product and free product sample redemption and finally received 2,500 responses. (Answer: 5%)

$$\frac{\text{No. of prospects acquired}}{\text{No. of prospects targeted}} \times 100\%$$

$$\frac{2500}{50000} \times 100\% = 5\%$$

### 12.5.2.2. Average Retention Rate

Retention rate is the number of active customers in a given period (t), given that these customers have also purchased in the period before (t – 1)<sup>1,2</sup>.

Example: In 2015, there were 2,500 active customers in Chimpanzee Skincare Company. In 2016, 2,250 customers were still active in this company. (Answer: 90%)

$$\frac{(\text{No. of active customers in } t | \text{Active customer } t-1)}{\text{No. of active customers } t-1} \times 100\% \quad \frac{2,250}{2,500} \times 100\% = 90\%$$

### 12.5.3. Average Defection Rate

Average defection rate is the likelihood that customers defect from a focal firm in a period (t), given that these customers were active in the period (t – 1). It is just the opposite of retention rate<sup>1,2</sup>.

Example: In 2015, there were 2,500 active customers in Chimpanzee Skincare Company. In 2016, 2,250 customers were still active in this company. (Answer: 10%)

$$1 - \text{Average retention rate}$$

$$1 - 90\% = 10\%$$

### 12.5.4. Average Lifetime Duration

Average lifetime duration is used to know for how long the customers remain customers in a focal firm<sup>1</sup>. Based on the average retention rate, marketers can calculate the average lifetime duration of their customers.

Example: In 2015, there were 2,500 active customers in Chimpanzee Skincare Company. In 2016, 2,250 customers were still active in this company. (Answer: 10 years)

$$\frac{1}{(1 - \text{Average retention rate})}$$

$$\frac{1}{(1 - 0.9)} = 10 \text{ years}$$



### 12.5.5. Survival Rate

Survival rate indicates the proportion of customers who have survived (or remained as the customers of a focal firm) until a period (t) from the beginning of acquisition. In the beginning, the survival rate is equal to the retention rate.<sup>1,2</sup>

Example: In 2015, there were 2,500 customers acquired in Chimpanzee Skincare Company. The retention rates of 2016, 2017, and 2018 were 0.90, 0.93, and 0.95, respectively. Chimpanzee Skincare Company can then calculate the survival rate of its customers in 2018. (Answer: 0.795)

$$\begin{aligned} & \text{Survival rate}_t \\ = & \text{Survival rate}_{t-1} \\ & \times \text{Retention rate}_t \end{aligned}$$

$$\begin{aligned} & \text{In 2016, Survival rate}_{2016} \\ = & \text{Retention rate}_{2016} = 0.90 \end{aligned}$$

$$\begin{aligned} & \text{In 2017, Survival rate}_{2017} \\ = & \text{Survival rate}_{2016} \times \text{Retention rate}_{2017} \\ = & 0.90 \times 0.93 = 0.837 \end{aligned}$$

$$\begin{aligned} & \text{In 2018, Survival rate}_{2018} \\ = & \text{Survival rate}_{2017} \times \text{Retention rate}_{2018} \\ = & 0.837 \times 0.95 = 0.795 \end{aligned}$$

### 12.5.6. Number of Survivals

The number of survivals is equal to the number of customers who remain as customers among the total number of customers acquired in the beginning<sup>1,2</sup>.

Example: In 2015, there were 2,500 customers acquired in Chimpanzee Skincare Company. The retention rates of 2016, 2017, and 2018 were 0.90, 0.93, and 0.95, respectively. Chimpanzee Skincare Company can then calculate the number of survivals in 2018. (Answer: 1,988 survivals)

$$\begin{aligned} & \text{No. of survivals}_t \\ = & \text{Acquired customers}_1 \times \text{Survival rate}_t \end{aligned}$$

$$\begin{aligned} & \text{In 2016, No. of survivals}_{2016} \\ = & \text{Acquired customers}_{2015} \times \text{Survival rate}_{2016} \\ = & 2,500 \times 0.90 = 2250 \end{aligned}$$

$$\begin{aligned} & \text{In 2017, No. of survivals}_{2017} \\ = & \text{Acquired customers}_{2015} \times \text{Survival rate}_{2017} \\ = & 2,500 \times 0.837 = 2,093 \end{aligned}$$

$$\begin{aligned} & \text{In 2018, No. of Survivals}_{2018} \\ = & \text{Acquired customers}_{2015} \times \text{Survival rate}_{2018} \\ = & 2,500 \times 0.795 = 1,988 \end{aligned}$$

### 12.5.6.1. Size of Wallet

“Size of Wallet” is the total amount of a buyer’s spending in a product category<sup>1,2</sup>.

Example: Apple is a customer of Chimpanzee Skincare Company, Monkey, Ape, and Gorilla skincare companies. Her spending is \$200 at Chimpanzee, \$400 at Monkey, \$300 at Ape, and \$100 at Gorilla respectively. Apple’s spending on skincare could then be calculated. (Answer: \$1000)

$$\sum_{j=1}^J S_{ij}$$

$$\$200 + \$400 + \$300 + \$100 = \$1000$$

J	all firms offering products in the same category	Chimpanzee, Monkey, Ape and Gorilla
j	firm	
i	a particular customer	Apple
S <sub>ij</sub>	Sales value to customer i by firm j, ... J.	\$200, \$400, \$300, \$100

### 12.5.6.2. Share of Wallet

Share of wallet is the percentage of the total expenditures in a product category that an individual brand satisfies a customer’s needs<sup>1,2</sup>.

**Rule 1:** The condition of this equation requires the company to collect information about a customer’s purchases from competitors<sup>1</sup>.

Example: Apple is a customer of Chimpanzee Skincare Company, Monkey, Ape, and Gorilla skincare companies. Her spending is \$200 at Chimpanzee, \$400 at Monkey, \$300 at Ape, and \$100 at Gorilla respectively. Chimpanzee Skincare Company can then calculate the per cent share of Apple’s skincare wallet. (Answer: 20%)

$$\frac{S_{ij0}}{\sum_{j=1}^J S_{ij}} \times 100\%$$

$$\frac{\$200}{\$200 + \$400 + \$300 + \$100} \times 100\% = 20\%$$

J	all firms offering products in the same category	Chimpanzee, Monkey, Ape and Gorilla
j <sub>0</sub>	focal firm	Chimpanzee
i	a particular customer	Apple
S <sub>ij</sub>	sales value to customer i by firm j, ... J.	\$200, \$400, \$300, \$100

**Rule 2:** Wallet Allocation Rule is based on the ranking of brands of a customer to predict the share of wallet<sup>1</sup>.

Example: Apple always shops at Chimpanzee Skincare Company, and also Monkey, Ape, and Gorilla skincare companies. She ranks Monkey a 1, Ape a 2, Chimpanzee a 3 and Gorilla a 4. Chimpanzee Skincare Company can then predict the per cent share of Apple’s skincare wallet. (Answer: 20%)

$$\left[ 1 - \left( \frac{\text{Rank of firm } j}{\text{No. of brands} + 1} \right) \right] \times \frac{2}{\text{No. of brands}} \times 100\%$$

$$\left[ 1 - \left( \frac{3}{4 + 1} \right) \right] \times \frac{2}{4} \times 100\% = 20\%$$

j	focal firm	Chimpanzee
---	------------	------------

**Table 12-4 Game Corner**

**Instruction: Calculate the Key Figures (Show your steps and round your answers to 1 d.p.)**

CarCar Wonderland is a supermarket in HK. In 2013 January, CarCar targeted 50,000 potential customers to join its membership campaign through a bundle of benefits and privileges. After the event, 4,500 customers were acquired (March 2013). After the acquisition, 4,123 customers remained and purchased at CarCar (March 2014). One year later, there were 3,618 customers still staying at CarCar (March 2015). Among the customers who stayed, Elsa is a loyal and profitable customer of CarCar. Her spending on different grocery brands is as follows: CarCar \$1,000, BeeBee \$700, JoJo \$500 and WoWo \$300. She ranks CarCar a 1, BeeBee a 2, JoJo a 3, and WoWo a 4.

**Based on the case information above, find out the following figures:**

<b>2013 Jan</b>	<b>Number of Target:</b>	
<b>2013 Mar</b>	<b>Number of Acquired Customers:</b>	
<b>2014 Mar</b>	<b>Number of Customers Stayed/Remained:</b>	
<b>2015 Mar</b>	<b>Number of Customers Stayed/Remained:</b>	

**Calculate the following metrics for CarCar Wonderland:**

<b>Acquisition Rate:</b>	
<b>Average Retention rate (2014 Mar):</b>	
<b>Average Defection Rate (2014 Mar):</b>	
<b>Average Lifetime Duration (2014 Mar):</b>	
<b>Survival Rate (2014 Mar):</b>	
<b>Average Retention rate (2015 Mar):</b>	
<b>Average Defection Rate (2015 Mar):</b>	
<b>Average Lifetime Duration (2015 Mar):</b>	
<b>Survival Rate (2015 Mar):</b>	
<b>Elsa's Size of Wallet:</b>	
<b>CarCar's Share of Wallet in Elsa Case (Rule 1):</b>	
<b>CarCar's Share of Wallet in Elsa Case (Rule 2):</b>	

## 12.6. Chapter Summary

1. Marketers can evaluate the effectiveness of CRM by using psychological metrics, behavioural metrics, and balanced scorecard.
2. The metrics for digital marketing have four major categories: revenue metrics, reach metrics, engagement metrics, and conversion metrics.
3. Balanced scorecard is a good means to understand the contributors to financial performance measures for enhancing the effectiveness of CRM. It has four major aspects: financial, customers, internal process, as well as learning and growth.
4. Examples of psychological metrics for measuring customer relationships include perceived quality, perceived value, customer satisfaction, and loyalty intention.
5. Examples of behavioural metrics for measuring customer relationships include acquisition rate, size of wallet, share of wallet, number of complaints, number of referrals, number of products purchased, frequency of purchase, retention rate, defection rate, survival rate, and average lifetime duration.

## 12.7. Key Terms

**Acquisition Rate** refers to the number of customers acquired in a marketing campaign<sup>1,2</sup>.

**Average Defection Rate** is the likelihood that customers defect from a focal firm in a period (t), given that these customers were active in period (t - 1)<sup>1,2</sup>.

**Average Lifetime Duration** is to calculate how long the customers remain customers in a focal firm<sup>1,2</sup>.

**Average Retention Rate** is the number of active customers in a given period (t), given that these customers have purchased in the period before (t - 1)<sup>1,2</sup>.

**Balanced Scorecard** is a strategic performance management tool used to reflect the relationships among financial objectives, customer outcomes, internal business processes, as well as learning and growth in achieving CRM success.

**Share of Wallet** is the percentage of the total expenditures in a category that an individual brand satisfies a customer's needs<sup>1,2</sup>.

**Size of Wallet** is equal to the total amount a buyer spent in a product category<sup>1,2</sup>.

**Survival Rate** indicates the proportion of customers who have survived until a period (t) from the beginning of acquisition<sup>1,2</sup>.

## 12.8. Concept Check Quiz

1. List out any three psychological measures and any three behavioural measures.
2. Define the share of wallet.
3. Define the average retention rate.
4. Define the survival rate.
5. Describe the four major types of metrics for digital marketing.
6. Provide one example of Reach Metrics.
7. Provide two examples of Engagement Metrics.
8. Provide three examples of Conversion Metrics.
9. Describe balanced scorecard.
10. List out any three examples of "customer outcomes" under the balanced scorecard.

## 12.9. Concept Challenge Quiz

1. Fujifilm launched a marketing campaign to recruit females from 18 to 28 as the new group of customers. It sent out 30,000 emails to reach these consumers, and finally, 12,000 females responded to this campaign. These females were then asked to indicate their preference for various instant camera brands: Fujifilm (1), Polaroid (2), X-ray Fish (3) and Zebra-Y (4). Based on the above information, suggest and calculate two relevant metrics for Fujifilm to measure the effectiveness of this campaign and to understand more about its customers. Show your steps.

**Hint:** Answers should focus on the number of deliveries, the number of recruited customers, and consumers' preference for various instant camera brands.

2. Rainbow Company wants to measure the number of page views of its website, and also the number of visitors who enter the site for one page and then leave within 2 minutes. Suggest two metrics for Rainbow Company.

**Hint:** Look for relevant Reach metrics for the case.

## 12.10. References

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*Customer relationship management is an art of attracting prospects, converting them into customers, and keeping them in the relationships with the support of information technologies and the belief of market orientation. We have to keep understanding customers, learning the changes in the market, and then modifying our strategies to communicate and serve them, in order to achieve greater sales and profits.*

*by Carmen Sum*