

# A framework for the implementation of a Customer Relationship Management strategy in retail sector

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**Abstract** - This paper focuses on the increasingly important topic of customer relationship management (CRM). Reasons as to why it is hard for traditional bricks-and-mortar retailers to employ are discussed, as is the great potential for CRM in retail sectors. Survey data leads us to conclude that a CRM strategy should be designed to improve customers' store experiences and a framework is proposed to continually achieve this. We then suggest a general blueprint for actually applying this in retail sectors and detail a possible architecture for such an implementation.

Keywords: CUSTOMER RELATIONSHIP MANAGEMENT

## 1. Introduction

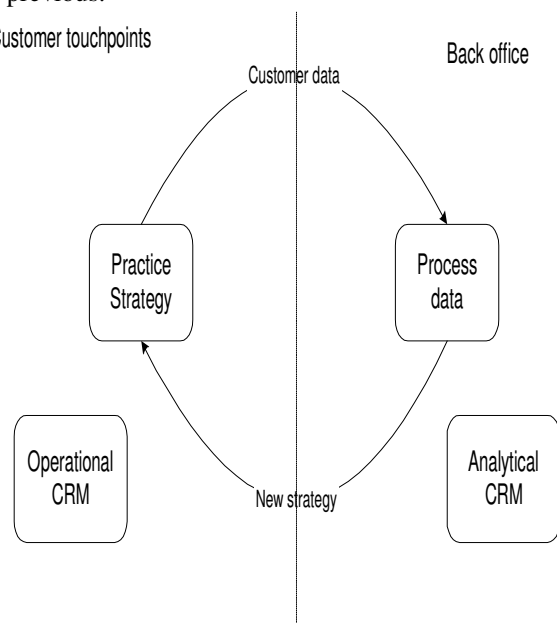
Customer relationship management (CRM) has been a hot topic in industry for a relatively short period of time. It formalises best practice into a strategy that enables a firm to identify its customers and target them in a way which will make them more profitable and loyal. Fairhurst (2000) [4] argues that "the best examples of CRM still remain the one-to-one services provided by shopkeepers who know their customers personally". The topic has thus been around for centuries, yet it is only in recent years that computing technology has been developed which can go some way to replicating this kind of customer management. The power of computers allows large firms to apply these techniques on their many customers.

The definition of CRM that we shall use is that of Dyché (2002) [3]:

*The infrastructure that enables the delineation of and increase in customer value, and the correct means by which to motivate valuable customers to remain loyal – indeed to buy again.*

This can be broken down into two specific types; analytical and operational. The distinction is that operational CRM occurs at customer touchpoints (i.e. where the customer and firm interact) and is thus concerned with collecting data and practicing strategies. Analytical CRM occurs in the back office and is concerned with processing data and forming strategy. Figure 1 shows how the two forms go hand in hand with one another. Operational CRM produces customer data which can be analysed in the back office. Using the findings from this, a new strategy can be developed and operated on the customers, which in turn produces data. This cycle is continuous with each

type of CRM hopefully building on the output of the previous.



**Figure 1: The relationship between operational and analytical CRM**

The ultimate goal of CRM is to provide a one-to-one personalised service to each customer – pre- and post-sale. If a firm can identify its customers, it can gain data on them individually. Using the individual data it can compare them with one another. These comparisons give an insight into each customer. As a result, the firm becomes more aware of customer needs and can change their marketing strategy – moving away from mass marketing towards database marketing.

It is apparent that it would be easier to implement a CRM strategy in an industry where the firms

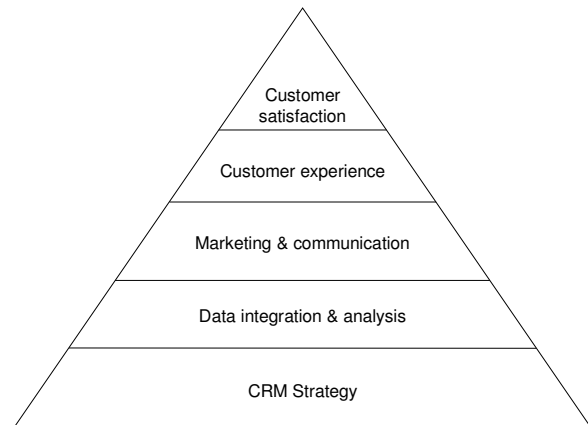
already have much information on their customers such as banks and insurance companies. These have information on the customers, their family and spending habits. Consider also online mail-order retailers such as Amazon.com which require customers to register before they buy. The company can then track the purchases and browsing habits of every customer and tailor their service accordingly. It is however much harder for the traditional bricks-and-mortar retailers to achieve the key ingredient of CRM – customer data. Customers can visit the shops virtually anonymously, purchase the goods and leave. This paper investigates strategies which could be implemented by such companies in order to better manage their customer relations. Specific reference shall be applied to the extremely competitive sector of retail sectors, where in recent years the big players have taken very different routes to obtain customer information.

## 2. Customer-centric strategies – CRM Value Cycle

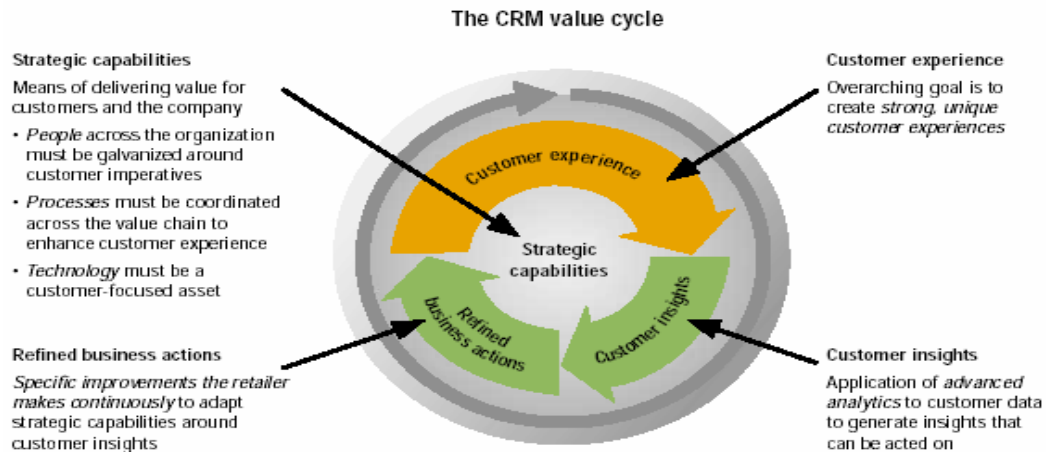
CRM by its very nature is not a one way street. For a company to make a return on investment (ROI) on a CRM strategy, more customers must stay loyal, which means customer satisfaction must increase. Chu and Pike (2002) [1] detail a survey that IBM conducted into what drives retail customer satisfaction in the USA. It was found that the most important factors were the in-store experience and their interactions with the staff. Interestingly marketing and communications (how promotions are communicated) and data integration and analytics (using information from a customer's past purchases to provide a better service) were not so important to customers, yet these properties are often touted as the major strengths of e-CRM. There was little difference between the one-to-one experience scores of the best and worst performing stores, yet a big difference between the store experiences of differently performing shops. This led Chu and Pike to conclude that CRM can do little unless the store has its retail basics in order. They also believe that marketing and communication and data integration and analytics should not be the sole goals of CRM, but should

support the customer's experience, since this is a more important factor to the customer. This can be modelled by the pyramid in figure 2, in which the lower levels support each level above. This shows that although it is important to have a CRM strategy, this is only one component within the firm's customer-centric strategy.

**Figure 2: Pyramid framework of a customer-centric CRM strategy**



The problem with this pyramid representation of the CRM strategy is that it does not illustrate any continuous improvement. It is impossible to simply reach the pinnacle of figure 2 and assume that competitive advantage has been obtained and will be maintained. This is especially applicable to the retail sector sector, where the costs for a customer changing the store they shop at are minimal and the competition between stores fierce. The cycle of analytical and operational CRM is continuous as shown in figure 1. This is because more customer data is produced whenever a revised business strategy is used, which can then be analysed and acted upon. If we incorporate this idea with Chu and Pike's theory that the customer experience should be the overarching goal of retail CRM, we find good cause to support a framework that Chu and Pike proposed in their 2002 paper; *Bringing the customer experience full circle: The CRM value cycle* [2]. This is shown in figure 3.



**Figure 3: The CRM value cycle (Source: Chu, J, Pike, T. (2002) Bringing the customer experience full circle: The CRM value cycle, IBM Institute for Business Value<sup>[2]</sup>)**

The lower half of the cycle shows the role of CRM, with the customer insights corresponding to analytical CRM and the refined business actions referring to operational CRM. The consequence of these two stages is an altered customer experience which can in turn be analysed.

This framework was proposed as a generic solution for CRM strategy in retail, and is definitely applicable to retailers. Retailers case studies were in fact used by Chu and Pike to develop this.

### 3. Landscape for the value proposition chain

In the next section we take the Chu and Pike framework and by using the Peppers and Rogers IDIC blueprint for retailers and produce an Information Communication Landscape for the value proposition chain. The IDIC methodology was chosen as a generic blueprint for CRM implementation which can be applied to many situations. This helps us view the problem from a CRM perspective before focussing on the retail sector. Within the stages there is much freedom as to how to go about achieving it, hence it should be possible to customise the approach for retail sectors. The best way to think of IDIC is as a bridge between the general CRM strategy discussed earlier and the technical implementation of the project.

The Peppers and Rogers consulting group suggest the IDIC methodology for implementing CRM initiatives. IDIC is an acronym for Identify, Differentiate, Interact and Customise – the sequence of stages a company must employ before realising the perfect CRM situation. The 2001 Insight Report, written by Peppers & Rogers Group

and Microsoft Great Plains [6], suggests that the perfect CRM implementation is when a one-to-one relationship with each key customer is realised. At this stage it may be costly or cumbersome for the customer to switch loyalties causing them to become ‘locked in’. This idea may not be as applicable to the retail sector, since there is little cost involved for a customer to change the retail sector they visit. Anecdotal evidence from Peppers & Rogers Group suggests that a firm that changes the way they deal with the top 5% or bottom 20% of their customer base can realise payback on a CRM project<sup>[6]</sup>. The stages of this methodology shall be examined with reference to retail sectors.

- **Identify customers**

Information such as name, address and purchase information must be collected across the company, at all points of contact. The more information gathered on each customer, the more can be read into their habits and preferences. In the retail sector environment, purchase information is extremely valuable due to the wide range of products available (e.g. a customer buying nappies and baby food suggests they are looking after babies, and much can be inferred about an individual’s income and attitudes by something as small as the type of bread they buy). The problem for bricks and mortar retail sectors is actually identifying the customers in the first place. In recent years many retail sectors have introduced loyalty schemes, offering promotions and money off shopping or petrol in exchange for customer data. To obtain ‘points’, customers must produce their card (i.e. identify themselves) at every transaction point. The advent of internet shopping has enabled retail sectors to identify customers at the point of registration and track their purchases and browsing habits whilst on the website.

- **Differentiate customers**

Peppers & Rogers justify this stage by saying “that customers represent different levels of value to a company and that they have varied needs”[6]. A good retail sector example of this is the BA Executive Club frequent flyer scheme, where their level of membership is dependent on how often they fly (i.e. their value to BA).

Differentiation should be relatively easy for the retail sector to achieve once the data has been collected, since there is full information on how much each registered customer spent and what they spent it on. With the information gained on the total spend of each customer, it is possible to work out their value to the company (e.g. top 10%). The products a customer purchases can put them into categories such as ‘vegetarian’, ‘parent’ and ‘social class’. These socio-economic categories are clearly independent of one another, so customers can be members of different combinations allowing a high degree of differentiation. This is extended further when combined with the customer’s value to the company.

- **Interact with customers**

This is the stage where the benefits of CRM kick in. Having categorised the customers, the retail sector is in a position to treat them differently. Valuable customers for example can be given more benefits, such as better offers to encourage them to stay faithful, since their loyalty is more important to the company.

- **Customise content**

Once the interactions and reactions of each customer have been analysed, a full one-to-one service can be offered to customers based on their value to the company, personality and background.

Offers can be tailored according to the socio-economic classification (e.g. there is no point in offering money off vouchers for a brand of dog food if the customer does not own a dog)

In summary, we can see that the IDIC blueprint is applicable to the retail sector. The biggest challenge facing the retail sector is how they

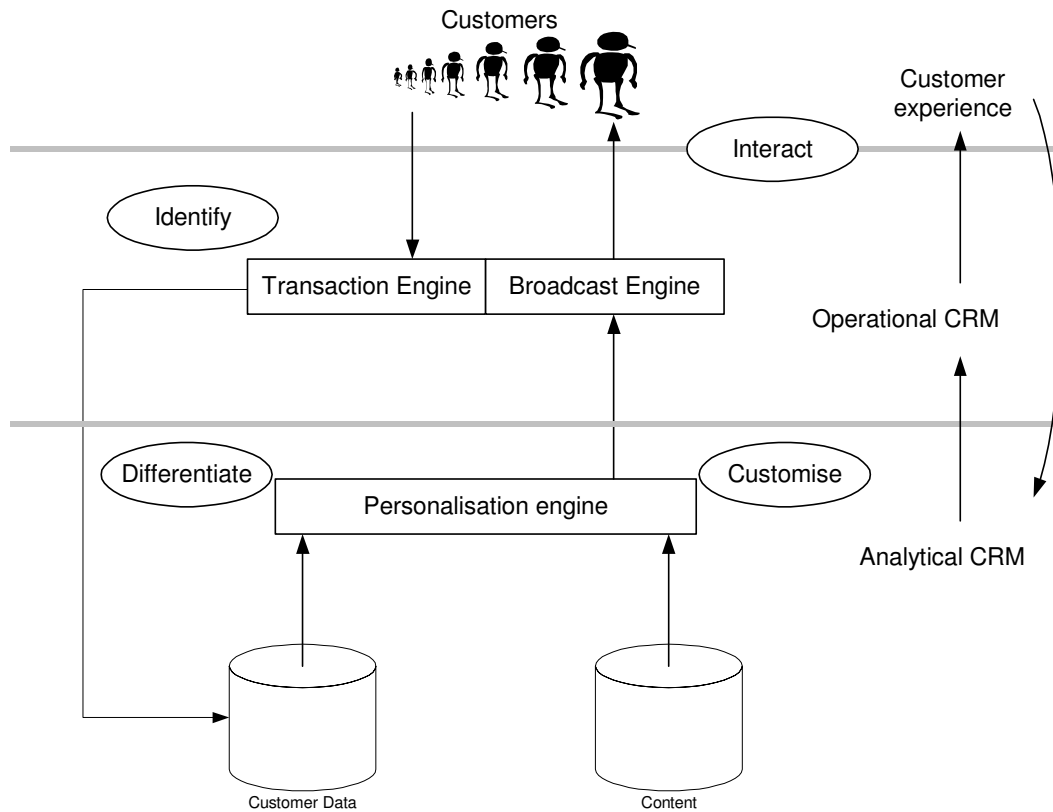
actually obtain the data in order to identify the customers. Once it can do this, the volume of data available is vast, which gives the remaining three stages a much higher chance of success.

### **3.1 Implementing CRM technology in the retail sector**

So far we have investigated the processes which the retail sector must go through in order to gain customer data and provide a one to one service to its patrons. The underlying theme of this should be to support the customer experience; however the physical outputs of a CRM initiative are data integration and analytics which can support marketing and communication with the customer. In all but the smallest local shop, grocery stores will have to employ some form of technology in order to perform IDIC on their customers. This section focuses on the technology strategy which the retail sector must employ in order to achieve the lower half of the CRM value cycle of figure 3, and how it fits in with the IDIC blueprint.

Fairhurst in his 2000 paper, ‘*What is CRM?*’ [4], outlines the technology required for implementing an E-CRM strategy. The focus is a customer support centre of an online company, and the aim appears to be to integrate customer information in order to improve customer service and reduce costs. The situation we are investigating is very different, with bricks-and-mortar retail sector focussing on improving customer experience. Fairhurst’s model does not mention any specific technologies, only the roles which need to be fulfilled for CRM to be integrated and implemented. It was thus decided to adapt his model for the retail sector. An advantage of adapting this framework is that it can be linked to the strategies discussed earlier; IDIC and the CRM value cycle.

The six key requirements Fairhurst identifies for the implementation of an online E-CRM strategy are: customer data storage and analysis, personalisation engines, content management, broadcast engines, transaction engines and workflow management. This was adapted for the off-line world of retail retail sectors by removing the workflow management requirement. The rationale for this is that it is the number of customers in the store at any one time that determines workflow, not who they are.



**Figure 4: Technology Design Landscape for value proposition chain**

Figure 4 shows the adaptations to Fairhurst's technology model, and how the earlier strategies formulated (IDIC and the CRM value cycle) fit in with the technology. The first stage of the process is identifying the customer. This is done by the transaction engine (at the retail sector this is at the point of sale) and is in the operational CRM level since it is a point of interaction with the customer. Details of each transaction are passed into the customer data store. Once there is enough data at this level the retail sector is able to analyse it and differentiate the customers. Since we are processing the data at this stage, we have entered the analytical CRM phase of the value cycle. At this level there is also an amount of content which can be customised once interactions have occurred between the retail sector and customer. The personalisation engine matches the right content with the right customer. Once this has taken place, the content must be broadcasted to the customer. The broadcast engine does this by converting the content into the format preferred by the customer (e.g. e-mail or post) and directing it to them. The broadcast engine need not be a piece of technology; it is merely implementing the new strategy suggested by the analytical CRM. Interactions between customer and retail sector occur once the customer has been identified and differentiated. This illustrates the notion that CRM is best used as a tool supporting customer experience.

## 4. Conclusion

CRM is potentially a useful concept in the marketing and customer service areas of a retail sector. The information and data attainable from a retail sector's customers is so deep and detailed, that the potential of CRM in this sector is enormous. However before CRM can even be considered, the retail sector must ensure it has its retail basics in order.

The key stage for a retail sector to implement, as with any bricks-and-mortar retail business, is a method by which it can identify the customer at any touchpoint. If it can achieve this, the remaining stages of the Peppers & Rogers IDIC methodology should give accurate and profitable results. Research has suggested that the motivation of a CRM initiative should be to enhance the customer experience. Customers are not interested in 'gimmicks' unless they perceive a benefit from them. It is more difficult for retail sectors to realise a time when customers are 'locked in'. This utopian consequence of successful CRM put forward by Peppers & Rogers Group (20010[6] may be impossible in this sector due to the low cost of changing retail sectors.

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