

MNM1505: Introduction to Consumer Behaviour

Lecturer:

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TOPIC 5:

Relationship marketing (RM) and customer relationship management (CRM)



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- Traditional marketing approach
 - Broken up into 3 sections:
 - The marketing mix – product, price, place and promotion
 - Transactional marketing
 - Businesses only have transactional relationships with their customers
 - Main objective is to get customers to visit their stores, browse their websites and look through their catalogues to make sales
 - Relies on competition between businesses
 - Market segmentation
 - Behavioural
 - Orthographical
 - Profile segmentation

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- **Relationship marketing (RM)**
 - “An approach to develop a long-term association with customers, measure the satisfaction level and develop effective programmes to retain the customer with the organisation”
 - The main aim of relationship marketing is to acquire (get) and retain (keep) loyal customers and keep them satisfied continually
 - Focuses on creating lasting relationships with loyal customers

Relationship marketing (RM) is the process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction (Berndt & Tait, 2014:8).

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- Relationship marketing (RM)
 - 2 ways in which businesses can establish and improve relationships with their customers:
 - Learning relationships are built on knowledge
 - The more a customer interacts with a business, the more the business learns from a customer
 - Customer interaction enhances relationships
 - Businesses try to learn from the experiences the customers have had with the company and its staff members – asking them whether they were satisfied with the product and/or service to serve them better next time

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- Relationship marketing (RM)
 - Ingredients for building relationships:
 - **Trust and commitment**
 - Trust - an expression of confidence between the business and the customer in the exchange that they will not be harmed or put at risk by either party's actions
 - Commitments - the belief that the importance of a relationship with another is so significant that it warrants maximum effort to maintain it
 - **Shared goals and mutual benefits**
 - Extent to which the partners believe in common behaviours, goals and policies that are important, appropriate and right for a particular situation is likely to affect commitment to a relationship

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- Customer relationship management (CRM)
 - Is a business strategy that is designed to improve customer service
 - Aims to increase customer satisfaction, manage the best customers effectively and gain new quality customers, thus increasing a business's profitability
 - Pursuit of businesses to create more meaningful one-on-one communications with the customer by applying customer data (such as demographics and buying patterns) to every communication medium

Customer relationship management (CRM) refers to the practices, strategies and technologies businesses use to manage customer interactions and analyse data with the goal of improving business relationships with customers, assisting in customer retention and driving sales growth (Rouse, 2014).

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- Customer relationship management (CRM) (cont.)
 - Prerequisites for CRM:
 - A shared vision
 - Teamwork and processes
 - Excellent customer service
 - Decentralisation of authority and management
 - Support of top management
 - Technology and CRM



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- **Customer engagement**
 - There is a movement towards customers who want to decide how, where and when they want to engage with a company
 - This movement started with mobile phones and the internet becoming a part of everyday life, especially smartphones where the customer has access to any information at the touch of a button
 - Can be in the form of social media, blogs, video and mobile applications

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- **Customer loyalty**

- “A deeply held commitment to re-buy or re-patronise a preferred service in the future despite situational influences and marketing efforts having the potential to cause switching behaviour”
- Beneficial for the customer and the business
- Customer gets a quality service and products every time they buy from the same brand, and the business has customers that keep returning



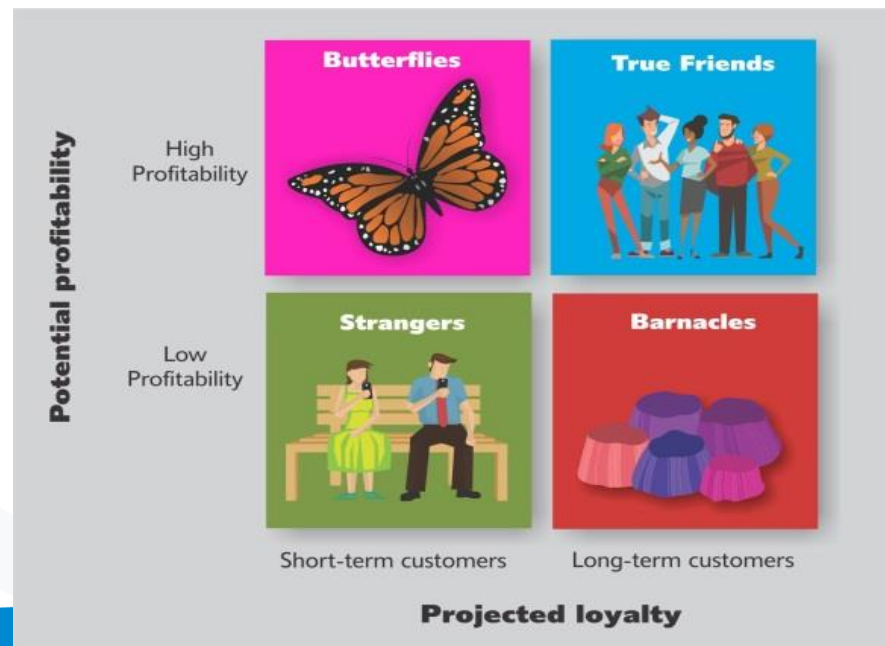
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- Customer loyalty (cont.)
 - A customer becomes loyal when:
 - they have a positive experience
 - their needs are met consistently
 - there is a relationship
 - they are recognised
 - Loyalty programmes
 - Brand and store loyalty



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- Customer loyalty (cont.)
 - Customer relationship groups
 - Classify customers into one of four quadrants based on their potential profitability and projected loyalty, and manage its relationships accordingly



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- Customer relationship groups (cont.):
 - **Butterflies**
 - Customers who are satisfied with a company's product or service offering, but are not loyal
 - They are in it for the best deal, and do not commit their loyalty to one company
 - The company claims to keep up to date with all the specials that are available



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- Customer relationship groups (cont.):
 - **True friends**
 - Customers who are loyal to a company
 - Satisfied with the product or service offering and are very profitable to the company
 - They make regular purchases and are very comfortable to communicate with the company
 - Communicating effectively to these customers is the most important aspect to consider when dealing with them



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– Customer relationship groups (cont.):

• Strangers



- Customers who are not loyal to a company
- They are not profitable and marketers should not spend money to try to build relationships with them
- Most effective to terminate a relationship with such customers

• Barnacles



- Customers who have a long relationship with the company, but are not necessarily profitable anymore
- It is important for companies at this point to determine whether the customer will be more profitable in the future
- And if they will not be, it is best to terminate the relationship

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- Customer loyalty (cont.)
 - Stages of relationship development (loyalty ladder)



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- Stages of relationship development (loyalty ladder) (cont.)
 - **Stage 1: Prospect**
 - A customer who has not bought anything from a business
 - Possible that this customer has not heard about the business yet
 - Important at this stage to create awareness and move prospects towards becoming a purchaser
 - **Stage 2: Purchaser**
 - The customer has made a trial purchase, and has started to evaluate whether the company offers something that they would value
 - Ensure that there is good customer service and follow-up to ensure that the customer has a positive experience with the company

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- Stages of relationship development (loyalty ladder) (cont.)
 - **Stage 3: Client**
 - Customer who has made a few purchases, and is generally satisfied with the business
 - Ensure that there are no mistakes at this stage, because the customer has just started to trust the business and it is a very fragile relationship
 - **Stage 4: Supporter**
 - Customer who has a good relationship with the company and also trusts the company
 - They continue to return, although they still consider it to be their second choice

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- Stages of relationship development (loyalty ladder) (cont.)
 - **Stage 5: Advocate**
 - Customer who is completely loyal and invested in a company
 - They tell their friends about it and are ambassadors for the company
 - They also give negative and positive feedback to ensure the business improves its service
 - Only a very big mistake on the part of the business ensures that an advocate loses their trust in the company
 - **Stage 6: Partner**
 - Usually in a business-to-business context where an advocate's relationship with a company becomes mutually beneficial
 - If a company has continually served the suppliers, and successfully satisfied their needs, that the relationship will move to a partnership

Learning Unit 11 Outcomes:

- You should be able to define and differentiate between RM, CRM, customer engagement and customer loyalty.
- You should know what are the ingredients for building relationships.
- You should know what is the prerequisites for CRM.
- Know when customers become loyal customers.
- You should know the different customer relationship groups/quadrants.
- You should know the stages of relationship development (i.e. the loyalty ladder).