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ACHIEVING CUSTOMER LIFETIME VALUE THROUGH CUSTOMER RELATIONSHIP MANAGEMENT

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ABSTRACT

Customer relationship management (CRM) approach has rapidly gained acceptance as an indicator to acquire, grow, and retain the “right customers” to attain customer lifetime value (CLV). The current challenge that most managers face is to achieve connection between marketing CRM and achieving CLV. Specifically, the need is to take all the data that have been collected about customers and integrate it in a manner that they are able to satisfy and maintain a long relationship with them. CRM has gained much importance in the organizational perspective as to maintain a long relationship with the customers is itself challenging, as with the arrival of new technological advancements in the market, the competition in the market increases, there is a change in behavior of a customer whether to switch to or not to. Customers who are selected and maintained on the basis of their lifetime value provide higher profits in future periods. The present paper tries to bring out various CRM practices and tools that have boosted the strategy of achieving CLV. Moreover the study tries to find out the diffusion of CLV and how importance CLV has in the sustenance of an organization.

KEYWORDS

Customer Relationship Management (CRM), Customer Lifetime Value (CLV), customer value, Long-term Relationship, Customer Behavioral Change.

INTRODUCTION

In the new economic era only a few organizations are providing their customers high quality products and service experience. They are attaining, interacting, transacting and retaining the customers through multiple channels and providing them eventual satisfaction. All customers do not have the same value; similarly all organizations cannot adopt similar CRM models, as in some cases, the cost of developing a CRM infrastructure may prove to be greater than the returns involved. Receiving the full value of the customer is increasingly dependent on the effectiveness of your relationships not only with customers themselves, but also with suppliers and partners. Successful companies are those that are not only integrated internally, but are also connected externally to the customers. The present era is in the midst of unstable change observing rapidly changing market conditions, explosive equity markets, reformed value chains and new global competitors, and customers themselves are changing. The concept of customer relationship management (CRM) has taken center stage in the business world for sustainable business advantages. Evidently long-term success requires a great Customer Relationship Management strategy. A technology-enabled CRM strategy to meet Customer-focused objectives involves the vast majority of any organization's activity. No doubt about that Customer Relationship Management (CRM) has become a top priority for companies seeking to gain competitive advantage in achieving CLV in the competitive market.

BACKGROUND AND CONCEPT

The concept of attaining CLV through CRM has gained much importance in the current chase of competition and technological change. (Dwyer, 1989) stated that the use of customer lifetime value as a marketing metric tends to place greater emphasis on customer service and long-term customer satisfaction, rather than on maximizing short-term sales. Referring to (Gronroos, 1997) that recognition of distinct determinants of customer value proposition and appraisal of the importance of determinants identified has to be treated as a basis for customer value delivering process, which determines both company reserves distribution and planning of value creation process for different customer groups. While referring to (Woodruff, 1997) the desired value influence, the customer perceptions about the product in its use condition, as their evaluation of experience is based on the same attributes, their performances and consequences that in order to create and deliver a unique customer value it is insufficient to analyze, what value social or emotional customer gets, it is important to find out what creates value for customer return will create for company. Relationship marketing attempts to involve and integrate customers and suppliers and other infrastructural partners into firms' developmental and marketing activities. Such involvements result in close interactive relationship, (Shani, et al., 1992). Further defined relationship marketing as an integrated effort to identify, maintain and build up a network with individual customers and to continuously strength the network for mutual benefit through interactive, individualized and value added contacts over a long period of time. (Payne and Holt, 2001) analyzed that there could be distinguished these main directions of customer value analysis: customer perceived value, extended product concept and analysis of possibilities of creation and delivering of the best value for customer. The selection and acquisition of customers based on the purely financial CLV become critical to the long-term customer profitability. The CLV as the measure for customer profitability possesses a fundamental role as it serves within the customer analysis as a deciding future, (Ahmad and Buttle, 2002).

As the customer stays with the company his positive word of mouth can bring more customers to the organization, ultimately the value of customer increases for the company and the process will go on and on. (Kumar, et al., 2007) found in their analysis, of a telecommunications firm, that the most loyal customers meaning customers with the highest financial CLV were not its strongest advocates. Customers that they call advocates were, despite having a low CLV, almost as valuable as customers with high (financial) CLV taking referrals into account. This demonstrates that indirect values can offset direct low profitability. Customer value is not one time practice but the sum of earlier performance behavior that can be used to expect future results. It is the expected net profit a customer will contribute to your business over the entire period of time a customer remains there. It also takes into account factors such as customer defection rates and discounted cash flow, which is the current worth of revenue received in future.

Different companies in different industries have different value metrics. Customer value is an expectant phrase, variously referring to a customer life time value (CLTV), potential value or competitive value or wallet share. Many firms have formalized the practice of modeling, allowing them to score a customer based on their relative worth to the company over time. This score is then used in a variety of ways to time communications with that customer (Dyche, 2007). While referring to CRM (Buttle, 2010) further says that the fundamental purpose of focusing CRM effort on retaining the customer for CLV is to ensure that the company must maintain only value-adding activities and relationships. With valuable customers only, it may not be beneficial to maintain relationships with all customers. (Kumar and Rajan, 2009) define the CLV as: “The sum of cumulated cash flows-discounted using the weighted average cost of capital (WACC)-of a customer over his or her entire lifetime with the company.”

(Finberg, et al., 2002) analyzed that consumer behavior determines consumer's intention to accept or reject new information about a company's product. The cognitive dissonance theory states that under normal circumstances, an individual's cognitive system is in behavior inconsistent, which will lead to create tensions and conflicts in the individual's mind, making him/her to change attitude or adjust behaviors. (Damm and Monory, 2011) revered that the CRM approach is one promising attempt to team up with the customer and respond to the change in power by creating a comprehensive marketing philosophy. Accountability for marketing activities has put the focus mainly on financial measures. This has raised doubts if customer profitability is estimated correctly. Investments in customer management are subjected to be profitable. This requires measures, so that resource allocations can be compared and justified. Customer bonding is a new retention strategy and it consists of interpersonal/social and technological/structural bonds. Social bonds are found in interpersonal relationship between customer-supplier dyad. Structural bonds are established when resources are committed to a relationship (Buttle, et al., 2002).

CLV can be achieved by positive retention strategy it can be done by meeting and exceeding customer expectations, finding ways to add value, creating social and structural bonds and customer engagement building process. Successful CRM therefore lies in the ability of an organization to develop a set of fundamental assumptions that seek to value customers as integral part of business and uniquely address customers' problems to achieve satisfaction and retention. In such circumstances, organizations should not put high premium on product complexities and innovations as the key to any competitive strategy but embrace CRM which goes beyond product innovation to develop relationship with customers through regular interactions (Kubi, et al., 2010). The concept of value in scientific literature when analyzing it from customer perspective, commonly is treated as relation between two components benefits and sacrifices (Wang et al., 2004). This relation determines the preferences of customers towards different alternatives. Despite the universality of this definition, it could be maintained, that this point of view reflects the analysis of perceived customer value and its influence on customer buying behavior mainly from transactional perspective, emphasizing importance of unique value for customer when seeking what alternative to choose in initial stage of buying process. The life cycle of customer passes through three stage management process, customer acquisition, customer retention and development.

The purpose of customer retention strategy is to keep a high proposition of valuable customer by reducing customer defections. The customer development strategy aims to increase the value of those customers that are retained to the company (Buttle, 2010). Elementary to understand the value the organization receives is to understand the economics of customer acquisition and retention, a new entrant in the market will be concerned with acquiring customers whereas an established company operating in a mature market will be concerned with retaining customer. Looking for a real value of customer one should look at the projected profit over life time of a customer (Knox, et al., 2009). Customer value can be defined from the perspectives of money, quality, benefit, and social psychology. In this study, customer value is the evaluation of the benefits of a product or a service by customers based on their advance sacrifices and exposit perceived performance. Consumers may cognitively integrate their perceptions of what they get and what they have to give up in order to obtaining goods. However, the sacrifice means more than the money paid for a certain goods (Qian, et al., 2011). (Toriani and Angeloni, 2011) revived that understanding the use of CRM in customer management processes" demonstrated that CRM helps the company to have distinctive services for their customers, providing personalized and interactive relationships that can provide security and credibility in relation to it. To support the development of its organizational activities, the company developed a technological tool that meets its needs.

(Soeini, et al., 2012) found that organizational adjustment can also be effective on implementing of a successful CRM strategy through improving employees' satisfaction indirectly. On the other hand, internal effects of successful implementation of CRM strategy like process modification and customer oriented culture of the organization would increase success quality indicators of CRM, like costumer acquisition rate, customer retention rate, customer satisfaction rate and customer loyalty rate and this increase can affect on organization profitability directly through CRM implementation. (Bohari, et al., 2011) stated that the empowered consumer is no longer a vague concept, but a reality is that changing the face of commerce. Thus, the smartest companies try to figuring out on how to build relationship with customer to increase their revenues and in future to spurs growth. The program that will add value to CLV for a company should be like: 1) to know your customer, to know what he wants, 2) customer oriented strategy. 3) Collect resources. 4) Build infrastructure. 5) Approach/attract the customer. 6) Deliver offer to customer. 7) Evaluate the results. 8) Continue or modify the program (Kincaid, 2006). E-CRM has positive effects at the organizational level for their respective products and services, consumer's loyalty, efficiency, internal process, management channels and innovative sufficient account for e-CRM impact. E-CRM system requires all the necessary consumer information that will describe the consumer's daily activities and the leisure activities to the organization. E-CRM is a combination of hardware and software, process, applications and commitment of management activities to develop high quality of customer service, and customer's maintenance. (Usman, et.al., 2012).

DISPERSION OF CUSTOMER RELATIONSHIP MANAGEMENT

The collection and storage of information was limited to the sales and service functions. Companies were losing customers abruptly only few remained within them as there was dissonance in the customer for searching a better company and a better relationship. The increase in awareness and adoption of CRM started in the mid 1990's, there was a need for the corporate to retain the existing customer as it was difficult and costly to acquire a new customer. Initially the CRM approach worked on two activities; 1) sales force automation and 2) customer service and support. But it had its limitations of having a single system without subsets which lacked clarity and consistency. The next approach was CRM with subsystem into one package, having diversity in the relationship approach and more consistency and automation. CRM is now a hot topic for the companies to discuss and more focus and priority is given to it, as it is a relationship based approach involving continuous interaction over time for social construct. CRM passes through many stages like Awareness building-Exploration-Expansion-Commitment-Dissolution. The fundamental to make relationship to companies with the customer is economic. Improving retention rate of customer has a direct impact on achieving customer lifetime value and increase the customer base for companies. CRM implementations are often designed to build closer, more value-laden relationships with customers, it makes sense for managers to be aware of the quality of relationship they have with the customers. Improving retention strategies for customers reduces the marketing costs for a company.

As customer tenure lengthens, better understanding of customer requirement and expectation can be developed. Over the time, as the relationship deepens, trust and commitment grows automatically and the customer life cycle with the company increases. The customer life cycle is the total time that the customer is engaged with the company from the customers' experience and view point. The components constituting the CRM are people, information, process and technology, an integrated approach of all the four components creates a value driven chain for both the company and the customer. CRM is about identifying and rewarding the most loyal customers to increase the value to the organization and to deliver value to the customers. In today's competitive world getting customer is difficult, that becomes very difficult when one talks about loyal customers, who should give value to the company throughout their life cycle with the company. So companies try their best efforts to retain the existing customers and acquire the new ones. CRM should be an integrated one with all the functional departments in an organization. One must have access, control, speed and automation to make all this possible.

From past failures of losing the customers forward thinking companies have recognized their breakdowns, for these CRM is much more than retaining customers. It is a business philosophy that affects the company at large. These companies have articulated their ultimate visions for CRM to communicate them to every aspect of operations. CRM promises to help companies in many of the business processes and accompanying analysis and saving precious time in the bargain. Almost all the corporate big or small work on a customer focused approach and the implementation of CRM can be seen widely now. It is not only CRM now, it is an internet enabled CRM called as e-CRM, having access to worldwide customers. It has service and support, order processing, sales, marketing and corporate social responsibility in it that drives it forward.

As advanced technology of information and communications emerged, internet became the priority of companies, it simplified bidirectional communication problem. It offered better way for companies and customers to exchange information that too in less time. The dot-com has revolutionized the information and communication world, more companies of high end retailing use the websites as an additional man of attracting people into their stores by providing add-on customer service and product related information that brings the customer more closer to the company and adds value to the company in long run competition. Thanks to the data warehousing, where we can store data in a centralized and cross functional database about all the customers. Any time the organization can access the required data in delivering better service to customers and the CRM approach strengthens further to achieve CLV in a more profitable and better way.

CRM AS A TOOL TO ACHIEVE CUSTOMER LIFE TIME VALUE

From the above discussion one can realize that CRM is a building block to achieve any kind of relationship with the customer and add value to the company in the long run. The customer life time value is not only the monetary value but the utilitarian value, social value, emotional value, conditional value etc. both for the customer and for the company. Delivering better value to the customer will add value to CLV of a company as customer satisfaction is both an end state value and a measurement tool for long run success. Organizations should analyze the value chain to take care of business processes, efficiency of resource utilization and cost control in attaining CLV.

Organizations need to find out the value added proposals, its relevance to the business and value delivery networks, this can be accomplished by understanding customer needs, designing value driven strategies, developing value propositions, linking customer knowledge and business strategy, developing new product and services, delivering customer value and measuring and monitoring customer satisfaction and retention. All this can be achieved if an organization is having a well established CRM approach. A successful CRM therefore requires a combination of managerial dedication, cultural change and a combination of resource and technology to achieve the needed outcome.

As firms grip CRM as a competitive capability to meet customer needs, the concept should be capable of holding the key to competitive advantage as research have evidenced the ability of the concept to help organizations to achieve market leadership in any industry. It should rather be viewed as a strategic means and deployed holistically across the broad spectrum of an organization to assure its success. Achievement of business excellence in global market creates preconditions for long-term growth and development of a company through satisfaction of all social segments – customers, partners, employees, owners, state administration, public, etc. Moreover CRM program must be practicable and this requires a wider understanding of the structural and behavioral limits to organizational alignment and most importantly, high performing companies must not excessively be concerned with immediate responses to expressed needs, but seek a practical orientation that directs attention towards latent or implicit demand.

With good utilization of information technology, such as the establishment of a database and the technology of data mining, enterprises should be able to extract valuable information. For the companies that understand CRM concept in that way, such strategy will ensure success in their efforts to improve the relations with the customers, suppliers and other business partners, and even with the competition. The ultimate aim of CRM is to develop potential customers and maintain the relationships with existing customers via the assistance of a variety of forms of information technology in order to create company value.

CHALLENGES

Without clearly stated goals most organizations fail in CRM implementation program. Companies continue to use technology based systems without initial assessment of return on investment (ROI), and acceptability by customers. The real barriers also come from employee attitudes, corporate culture, organization structure, lack of strategic planning for CRM system, lack of quantifiable goals and objectives, lack of inter departmental integration and lack of metrics for program performance. In channel proliferation situation where companies focus on managing their channels are forced to staff each new channel. Clearly this is a costly and inefficient approach. Most of the organizations have the ability to collect information but they don't have the coherent and effective strategy to analyze and process this tremendous amount of data into actionable information.

Communication channel, control and coordination in marketing activities, financial allocation, size and structure of market, technology and change are the other challenges which organizations face in implementing and developing CRM. Besides this there are other factors having direct influence on the CRM implementation and development; these are ignorance of the database power and CRM principle, defective human resource planning, lack of expertise in the field, improper channel management, lack of synergy in the organization etc. As CRM consists of discrete episodes of repeated interaction, which in turn consist of action and response. So each episode is a range of communicative behaviors including speech, actions and body language. Some authorities think it insufficient to define a relationship as an interaction over time. As relationships change over time one can't expect a similar kind of relationship all the time. So organizations face the challenge of changing relationship and attitude of their customers also. The core of CRM idea must be that customer should not be viewed as a set of independent transactions but as a lifetime income stream for the company. As CRM combines many of the traditional marketing techniques that have been used well by themselves such as data base marketing, sales force automation, telemarketing, web personalization and customer service operations, the backbone of all this is communication, lack of communication between everyone and anyone in the CRM chain can lead to incomplete picture of the overall program. The key to success of CRM is that a company understands the needs and requirements of the present but for the foreseeable future.

MANAGERIAL IMPLICATIONS

In the past, many companies did not care about customers and took their customers for granted. Customers often did not find any proper substitution for current suppliers, or many other supplies were just as poor in a quality and services, or the market was growing so fast that the company did not worry about fully satisfying its customers. To meet these challenges, firms over the past few years have been using the facilities of Customer Relationship Management (CRM) - a set of software applications that aim to integrate a firm's sales, marketing, and customer service information. With the help of technology CRM enhances the capability of an organization to accumulate, synthesize, and disseminate quality information in an economic manner from geographically discrete customers. These specialized computing systems control the power of digital technology by automating front office business functions to optimize an organization's customer value exchange. They act as corresponding mental assistants and increase the effectiveness, competence and personalization of customer value delivery, thereby improving customer satisfaction and reducing working costs.

In order to attain the goal of retaining customers, CRM systems help firms to synthesize information from all their contact points or "touch points" including e-mail, call centers, sales and service representatives to support subsequent customer interactions as well as to inform market forecasts, product design, and supply chain management. These systems make available same real time information on each customer to a wide spectrum of people like sales personnel, web managers, call center personnel, resellers, and customer service representatives. Thus, CRM puts organizations at an advantage over the competitors.

Management of the organization must not only be committed to the development of CRM strategy but also ready to invest time, effort, and resources for the implementation of the strategy. CRM cannot prove of significance unless it addresses every customer contact point and every mode of interaction. Therefore, the firms must integrate CRM as widely as possible across their organizations. CRM involves automation of business processes; therefore, functional specialists who are currently in charge of these processes must possess knowledge of technology. To impart such knowledge to these specialists, firms must organize training programmes, workshops and seminars for them. Most organization do not have adequate infrastructure required for successful implementation of CRM strategy. Therefore, firms must develop such infrastructural facilities within their organization that are capable of providing support to enterprise CRM application. The companies must make necessary arrangements within and outside their organizations to ensure a perfect integration between strategy, business processes, and software products towards a common goal which is a key factor in the success of CRM.

CRM strategy accomplishment is based on the most valuable customers; therefore the organization must direct its customer relationships intelligently. Any organization with various departments, such as marketing, sales and service, can gather qualified information that will create a database which is of real value to the company. Setting up a well defined process for data retrieval enables organizations to effectively use the data and a regular policy for customer relations management as well as optimal customer service. Therefore, changing the context of organizational structure deeply to support, CRM that is required right through the marketing, sales and service departments. In other words, CRM is a functional instrument to make customers feel free to perform their own services through several communications channels, and also persuade new customers. Moreover CRM tends to achieve CLV through following measures:

- Organization must be adaptive to market and competitive changes.
- Providing updated information to all customers through accessible channels and enabling easier and more comprehensive customer information capture.
- Quality of service must be raised while one must reduce the cost base and giving priority to growing customer value rather than growing customer volume.
- Implement the effective and customer oriented acquisition and retention programs and offering end to end customer management.
- Emphasis must be given to two way communication with the customers and making CRM as an integrated approach.
- Develop in-depth understanding of customer needs, wants, desires, attitudes and behaviors to deliver a cost effective and efficient service experience.

- Building customized propositions and relationships by using intelligent systems for understanding the customer.
- Successful CRM must not only create value for the organization but it must provide value to the customer also.
- Priority must be given to the matter of what business promises and what it delivers? Organization must know-who are our customers and what do they want from us? Who among them are most profitable? How to retain them?
- Control on the marketing and distribution channels and offering different service to different segments as the need may be.
- Emphasis must be given to the trust worthy approach towards the customer and use proper channel/media that inspires confidence, control and capability.
- Identification of customer issues and grievances and giving primary priority to resolve them with a strong remedial mechanism.
- Scan the environment and gain as much knowledge about the market and customers and understand the diversity, expectations and profitability.
- Innovate and meet the very needs of clients/customers, so that the customers remain as advocates on the loyalty curve.

CONCLUSION

Over the years marketing have changed from transaction orientation to relationship building and is now seen as the process of defining, developing and delivering and getting value. CRM is an important tool for accomplishing CLV as profit making source for companies. Research has demonstrated that successful companies use CRM initiatives in early stages for relationship building to achieve more market share and more profit making. Customer expectations must be clearly understood for the company to be able to focus on customers, it has to establish close relationship with them and persistently gain their knowledge of the company's products and services. Complaint handling is another important area where companies must be focused, if an organisation does not handle complaints with urgency and respect, customers will see no reason to trust, commit to or communicate with the organisation. This emphasizes the need for adequate and effective problem recovery. It develops deep understanding of the customer needs and wants; this therefore necessitates the need for CRM.

The success of CRM can only be achieved if the entire organisation is behind its implementation. Trust can be obtained by delivering on promises made, which in turn can lead to a successful CLV for the organization. To retain and increase the value of customers for the company, one has to engage them by communicating on a regular basis. If one does not, customers will be less loyal and either discards one for a competitor who communicates with them, or will spend more with the competitors over time. Building mutually beneficial relationship with customers requires that everyone in an organization work together to provide customers value before and after each purchase or experience and is important for the development of long term relationship with our customers. Therefore, the adoption and effective implementation of CRM is a prerequisite for the achievement of customer value and satisfaction is needed to cultivate, nurture, mature and manage customer relationship.

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