Paradigms in Customer Management

by Merlin Stone
IBM Professor of Marketing
Surrey European Management School, University of Surrey

1. Introduction

This paper challenges some of the assumptions made by companies implementing strategies based on customer relationship marketing. It summarises in simple forms some of the paradigms, and points out that technological developments and customer preferences do not lead to simple conclusions about which paradigms are appropriate. It is based on our extensive research programme at the Surrey European Management School (Sems), University of Surrey, which has been published in academic journals and also in the Sems IBM-sponsored series of briefings, Close to the Customer.

This paper will aim to close the dialectic loop that has opened up in marketing theory. A number of classic marketing paradigms exist in marketing, some of which are discussed in this article. These have been challenged by the antithesis of relationship and one to one marketing. This paper attempts the synthesis.

The ideas as presented here are deliberately simplified. This article is the first publication of one of the streams of the programme. A longer paper will be published later in 1999. But the power of these ideas lies in their simplicity. They do state the obvious - so obviously that the ideas are often misunderstood by consultants, managers and academics looking for more complex keys to success or reasons for failure. The reader might also get a sense of some of this being a re-presentation of well understood ideas i.e. Emperor's New Clothes. Nothing wrong with that, if it helps us reach profitable conclusions!.

2. The main paradigms

The main paradigms that we have come across or identified through our own work are listed below. Note that in practice many existing modes of marketing are combinations of these. The summaries are very brief and do not do complete justice to the models.

2.1 One to one

The Peppers and Rogers ideal in which as far as possible most aspects of the marketing mix are actively attuned to the (changing) individual, based on information given by the individual before or during contacts, perhaps supplemented by other data about the individual (e.g. inferred). They reject the idea of the segment of one, as this is seen as static. Some (but not all) customers are seen to be very receptive to this i.e. it is acknowledged that customers have different propensities to respond, in terms of returning more value.

Though there are a few examples of companies doing some of this, in general the returns to the enormous systems and data investments required to achieve this are not clear and reliable, though there are some good case studies of success.

2.2 Transparent marketing

This is our own idea that many customers would like to manage their relationship with companies rather than the other way round. Customers would like to do this by soliciting information from them, customising the offer made to them (content, timing, etc.), but they are not usually allowed to do so. However, where this is possible (e.g. via advanced call centres or the Web), some customers are very responsive to it. However, most companies do not offer anything like this to their customers, and often waste a lot of money trying to guess what customers want, based on inadequate information.

2.3 Customer Relationship Marketing (CRM) through a limited number of segmented offers

This is best described in our book, as the aspiration of most companies. In practice, most companies make much slower progress than they would like, but get solid gains by prioritising those areas of the relationship where the offer for target (e.g. positive and/or high value) customers is most at variance with the need. It recognizes that the relationship is only one part of the marketing mix, and that there are often situations where classic elements of the market mix are more critical requirements for marketing success (e.g. leadership through product, price, brand, retail location).

2.4 Personalised communication and targeting (e.g. for campaign selection and packaging purposes) of a standard offer ("personalised standard")

This is very common and has grown out of good practice in direct mail and telemarketing. It involves good use of available data (including that previously given by customers) and good data quality management. It can lead to substantial uplifts in response and conversion rates and significant savings in communication costs (particularly outbound). It may involve tens, hundreds or even thousands of cells in a large outbound mail campaign, in which the offer made to each customer is selected from one of many (often modular) offers, according to the customer's profile, and presented to the customer using personalization. In its most advanced form, data given by the customer at the point of contact is used to create or modify the profile and hence the offer made.

2.5 Top vanilla

In this, leadership is gained by offering excellent customer management (before, during and after the sale), but to set standards which are available to everyone in the target market. In some cases, this is combined with one of the other approaches for one or more small segments of highly valuable customers.

2.6 Spot-buy within managed roster

Some customers in some or all of the product they buy prefer to get the best deal (value for money, not necessarily lowest price) at the time of purchase, but only from a selected roster of suppliers. This is characteristic of heavy users of FMCG or shopping goods, but also of many industrial purchases, where a roster of suppliers is used to ensure optimal variety, product quality and service. In such situations, attempts to develop behavioural loyalty (so that a customer buys more than their normal proportion from one supplier) usually require promotional incentive. Branding is usually a critical determinant of inclusion in the roster and also share within the roster. Also, for product bought at retail, presence in retailers in the customer's roster of retailers is important.

So, in this model, spot marketing focuses on getting on the customer's roster, and providing best value when compared to other companies on the roster. Top vanilla service can add competitive edge.

2.7 Spot-buy managed by agent

In some cases, drawing up the repertoire can be a complex task, with which customers feel they need the help of an agent. Also, some modes of purchase may require the customer to sign on as a registered customer (e.g. buying via telephone or the Web), but the customer prefers to register with an independent agent rather than with the original product or service supplier. Examples of this kind of behaviour include financial services and travel. In this situation, agent marketing becomes the key to success, the final customer has less influence on the purchase. Choice is delegated. However, relationship marketing techniques can be used very successfully with agents, while top vanilla service is important for final customers and agents.

2.8 Pure spot-buy

Here, the customer rejects all relationships, and buys purely on the basis of current perceived value, which in turn is strongly influenced by classic marketing mix variables - brand, perceived product quality, price (including promotional discounts), availability etc. Good examples of this are purchase in the newly deregulated energy market, and the direct banking short-term savings market.

2.9 Classic marketing models

Finally, there are several classic marketing models where the nature of customer management is not specified explicitly but where there is a very strong implicit model of customer management. These include those listed below:

- Retailing
- Sales force management (especially in business to business, where the oldest model of relationship marketing was born, based on ideas of key account management, industrial buying centres, quality and customer service)
- Mail order (the source of the earliest and in some ways still the most professional ideas of mass relationship marketing e.g. customer value, customer retention and dismissal)
- Consumer product and company brand management
- Business product management - closely related to technical innovation models

3. Making sense of this

Obviously, these paradigms overlap, and suppliers may find they need to combine them in different ways for managing different customers, and for different products. However, each has characteristic and very different patterns of marketing investment and return.

The choice is affected by factors such as those listed below:

- State and rate of change of product technology. This can lead customers to require uncertainty reduction - available through relationship or agents. But it can also create big differences in spot value
- Underlying production and distribution techniques and costs (e.g. costs of variety, economies of scale)
- Rate of entry of "new to category" customers, which affects role of experience
- Market structure fundamentals (e.g. patterns of competition or regulation)
- Transfer of learning and expectations of customers between different paradigms of customer management that they experience
- Customer behaviour and psychographics (or more simply, what they think and feel, how they buy, their need to give or take control, and associated lifestyle and life-cycle issues)
- Timing issues (how quickly customers' needs can be identified, and how quickly they can be responded to)
- Customer expertise - whether customers are good at identifying their own needs and if so, how long it takes - and associated learning issues
- Sector (strong tendency in some complex business to business relationships for customers to prefer CRM-managed repertoire with spot-buying)
- State of intermediation: type of intermediation (e.g. by agents, web-based) and amount and type of value added by intermediaries
- Relationship between risk and value - e.g. do customers have high risks (e.g. credit, insurance) attached to them as individuals; what is the balance between good and bad customers and between good and bad customer characteristics
- Data issues (quality, legal issues)
- Systems culture of the supplier - e.g. are managers able to cope with the latest call centre and web-based technology

4. The paradox of technological progress

Many writers on relationship marketing have argued that improved ability to capture, manage and use customer information and to interact with customers implies that managing customer relationships over many transactions (an element of CRM and one-to-one) becomes a more appropriate strategy. However, we are now encountering much evidence that this technological progress also makes transparent marketing and spot-buying easier, in ways that may reduce customer loyalty. Here, in no particular order, are some of the examples and themes that I have identified or that have been suggested to me.

4.1 Utilities - buying energy under the new supply arrangements

In newly deregulated markets such as the UK, the model is, for example, electricity or gas supply is that the individual has a relationship with the supply company. The customer signs on and agrees to buy power from that company. The company proceeds to buy electricity at the best route. This can lead to a CRM model (cross-selling of different power sources and associated household and financial services) or personalised standard marketing. However, IBM has shown simulations of a web-based agent, which offers the customer a choice of energy sources e.g. Green, fossil, energy, particular geographical origin. In this situation, the customer logs in and can switch power source according to e.g. price fluctuations. A consumer might, for example, be green "at heart", but set an upper price limit to greenness, switching to fossil fuel if green electricity becomes too expensive. This would be agent-managed spot buying. In its extreme form, of course, the consumer would set the computer to do the task, stetting control parameters so that the source could be switched without human intervention.

4.2 Buying a telephone call

Gone are the days when a customer had access to only one form of telephony. Today. A higher value family might have 4 0r 5 telephony providers e.g. PTT (e.g. BT), cable, a low cost supplier (usually requiring an access code to route the call off the local PTT or cable route), and one or more mobile providers. In theory, customers could make each call by choosing the supplier with the best rate. Indeed, this can be done automatically using software, and as the multipurpose handset becomes common, consumers may come to expect this. This is roster spot-buying. Customers attempts to do this may be slowed down by the price confusion strategies employed by incumbent telephony operators. However, for specific types of call (e.g. to friends and family overseas, repeated and/or lengthy long distance calls to the same number), some customers will be motivated to do the comparison and select.

4.3 Credit vs. pre-paid mobiles

The enormous take-up of pre-paid mobiles (in Italy over 50% of the stock) indicates that many customers are happy with the classic product/brand model, with no relationship. Some customers may be influenced to buy their top-ups from particular stores by CRM techniques (e.g. double points on store loyalty card - and the margin is there to allow this). Highest value customers may accept a a CRM approach with the network provider if their company is paying the bill and they get a free incentive e.g. Air Miles.However most users (and most new users) are not in the latter category.

4.4 Short term savings

The invasion of retailers (Sainsbury, Safeway, Tesco) and insurers (Standard Life Bank, Prudential Egg) using direct marketing (mainly call centre but in one case the Web) has caused very large numebrs of customers to switch their savings away from retail banks. Effectively, consumers line up one or more companies on their roster (stepped interest rates - and family group interest rates - make it likely that most will have only one provider at a time). They then switch money to and for according to the amount of cash they have (or expect to have) spare.

However, they have a very specific product objective in doing so. This is one of the few areas where value for money is completely transparent.

4.5 Cross-selling in financial services

The generally low levels of cross-buying within financial services (and the suspect profitability of much cross-selling as most companies practice it) indicate that most consumers are happy to use the variety of marketing/IT options available to them (direct mail response, call centre - often stimulated by direct response TV) to choose each supplier based upon perceived value for money. Also, because consumers' timing is hard to predict for life-cycle products (e.g. life, pensions), the consumer is harder to cross-sell to. This is why many life and pensions companies are shocked when they get their first data warehouse and realize how low their cross-selling ratio is. Some companies have now developed a more targeted approach to cross-selling. In some cases based on best practice software which works on the basis of products being marketed to customers according to customers propensity to buy, rather than customers being selected according to the probability that they will help the product manager meet targets. However, success rates are usually fairly low. This is because as customers become more aware of the different offers, they are more likely to follow a roster spot-buy policy, and call centres and Internet make this much easier.

4.6 Grocery food buying

This is the classic roster spot buy. Here, there seems to be much evidence that the more a consumer buys of a particular category, the wider the roster goes, and spot buying (between brands, and to some extent between stores) takes place within this. In fact, much retail buying is catchment area determined, but we can already see the situation developing in which retailers post their price lists and special offers on the Web, the consumer applies a standard template shopping list and works out which store offers the best deal.

4.7 Financial service advisors

One of the reasons for generally low cross-selling rations, particularly in life and pensions, is that the higher value the final customer, the more likely the use of an independent advisor, who will spot-recommend based upon value to the customer and (taking into account commisions) value to the advisor. Very few companies offer incentives to existing product holders - usually the question is not asked, nor is the second relationship known about. This is agent-managed spot-buying.

4.8 Buying a rail or air journey - including seat auctions

The Web (and of course the call centre, Videotext and Global Distribution Systems) make it much easier for customers to find the best mode, routing and price for a given journey. Agent-managed spot buying is encouraged by GDS suppliers such as Sabre by their use of Web technology (travelocity.com). CRM techniques work for corporate customers who receive personal incentives (miles). The new low cost airlines are concentrating on providing a medium-vanilla product.

4.9 Car buying

Surveys by motor companies themselves indicate that many consumers intensely dislike the process by which they are forced to enter into a relationship with a car dealer when their preference is for roster spot buying at a retailer. Slowly, both fleet and private markets are moving in this direction. In Europe, where legal constraints apply (the EU Block Exemption that allows motor manufacturers to force sole brands on dealers), the move is of course hampered. However, hypermarkets are making their plans! Carrefour in France has already moved into the motor market, and Tesco in the UK had to scotch rumours of such a move when it bought a large number of Skoda Octavias for a promotion (the advertisement read - "We're not selling cars, we're giving them away").

5. Conclusions and implications

No one paradigm dominates another - horses for courses is the key. Our research indicates that companies should consider the variety of paradigms that might work in their market, and identify which paradigms might be best for their market - as a whole and for particular segments. They should review the extent to which these paradigms have really been successful - in their own and parallel markets. This review should take place as part of a general corporate strategy review, for each paradigm requires its own operational structure, processes, systems and policies. There is no point in choosing a marketing model that sits badly with other functional strategies. Perhaps most importantly of all, they should keep a close watch on the preferred paradigms of their most valued customers - but with a sceptical eye. For often, a paradigm only works because customers have been offered nothing better, as High Street insurance agents discovered when Direct Line was launched in 1985, as the High Street banks discovered when Sainsbury, Safeway, Tesco and Standard Life and lately Prudential launched their direct savings accounts, and as car manufacturers will discover in the 21st century.

Merlin Stone is the IBM Professor of Relationship Marketing at Bristol Business School - www.uwe.ac.uk/bbs/, one of the leading UK centres for academic research into relationship marketing and e-business. He is an Executive Consultant with IBM's Business Innovation Services (see www.ibm.com). He is a director of Swallow Information Systems Ltd. - www.swallow.com, suppliers of customer management software (e.g. complaints management), and of QCi Ltd. - www.qci.co.uk, specialists in customer management consulting and assessment and suppliers of CMAT© - the Customer Management Assessment Tool (software and benchmarks for assessing a company's CRM performance. He is actively involved in the further development of CMAT, including special versions for major agents such as the Post Office and IBM. His consulting experience covers many sectors, including financial services, utilities, telecommunications, travel and transport, retailing, automotive, energy and IT.

His research is published in a series of IBM-sponsored briefings, Close to the Customer, published by Policy Publications - www.ntwkfirm.com. He is the author of many articles and eighteen books on marketing and customer service, including How to Market Computers and IT, Database Marketing, Telemanage your Customers, Competitive Customer Care, Direct Hit, and his two latest, Up Close & Personal - CRM @ Work and Customer Relationship Marketing - both the latter two sponsored by IBM. For more information on his work with IBM, search for his name using the search engine on www.ibm.com. For details on how to order the latter books, see www.kogan-page.co.uk. Merlin is one of the authors of QCi's report on the first two years of using CMAT©, The Customer Management Scorecard, published by Business Intelligence and sponsored by IBM and the Royal Mail.