

## THE APPLICATION OF CRM SYSTEM IN RETAIL INDUSTRY

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### ABSTRACT

Today in the highly competitive market, the implementation and application of a Customer Relationship Management (CRM) system may represent the difference between success and failure for retailing organizations. We know that the survival of every organization depends on the quantity and quality of its customers, so they should keep their old customers and attract new ones. You know that it's easy to copy your competitor's products and even services but it's almost impossible to copy their relationships with their customers and here is where CRM comes in. This paper discusses the strategic significance and application for customer relationship management (CRM) in Retail Industry and some points to survive by making your customers loyal.

**KEYWORDS:** CRM, Retail, Customer Loyalty, Competition

### INTRODUCTION

Who's running the store? The customer, of course, Sam Walton said: "we have only one boss who is called customer. He can easily fire us by buying from our competitors." The trend of increasing competition and decreasing customer loyalty has led to the emergence of concepts that push from a product orientation to a customer orientation and that defines their market strategy from the outside-in and not from the inside-out. The focus here is on customer needs rather than on product features (Ozgener & Iraz, 2006) [1]. In today's hypercompetitive retail environment, great service is what keeps customers loyal. Strong relationship means strong profit and survival.

As you know every organization's success depends on the quantity and quality of its customers. It means every organization that has more customers (quantity) and they buy more products (quality), it's more successful and its business is more profitable.

Customer relationship management (CRM) is crucial in today's retail business because of globalization, increasing competition, market saturation and rapid advances in technology. The aim of CRM is to understand the profitability of their customers and to retain the profitable ones. Therefore, many firms need to be able to determine the value of their customers in order to retain or even cultivate the potential profit of customers (Hawkes, 2000) [2].

Generally the customer is looking for buying more products with less money, and organization is looking for selling less products with more money, the objective of CRM is to balance these two very different approaches to satisfy both of them. CRM is a dynamic process of managing a customer-

company relationships so that customers elect to continue mutually beneficial commercial exchanges and at the same time are dissuaded from participating in exchanges that are unprofitable to the company (Bergeron, 2002) [3].

## **WHAT IS CRM?**

CRM stands for Customer Relationship Management. It has been defined in a variety of different ways. For some, CRM is a way to identify, acquire, and retain customers. For others, it is a way of automating the front office functions of sales, marketing, and customer service. For some vendors, whatever their current product may be, that is CRM.

- "CRM is a comprehensive approach which provides seamless integration of every area of business that touches the customer - namely marketing, sales, customer service and field support - through the integration of people, process and technology, taking advantage of the revolutionary impact of the information technology. CRM creates a mutually beneficial relationship with your customers. It is fundamentally cross-functional, customer-focused business strategy" (Fulk & Whang, 2000) [4].

CRM is in fact about creating value for customers. (Cash, 1999) [5] CRM itself is not a technology, even though technology is required to enable CRM. Technology makes it possible to integrate the large volumes of customer information that are required for CRM, and to efficiently transform this information into useful knowledge.

CRM is a dynamic process of managing a customer-company relationship such that customers elect to continue mutually beneficial commercial exchanges and at the same time are dissuaded from participating in exchanges that are unprofitable to the company (Bergeron, 2002). [6]

It provides everything you need to increase revenue, improves the quality of sales and service, and makes every customer interaction a positive one – all while controlling costs.

## **HISTORY**

Treating different customers differently is an old concept, dating back to the very beginning of trade and commerce. We began to lose sight of this concept amid the excesses of the Industrial Revolution and the decades of global turmoil that followed. The astonishing success of mass-production as a means for adequately feeding, clothing, and equipping unprecedented numbers of people pushed the concept even further into the background. [7]

## **RETAIL INDUSTRY**

Retailing ranges from small, sole enterprise operations to large chain stores and includes everything in between, department stores, specialty stores and services, discount, catalog, Internet, independent, restaurants and grocery stores. Retailing depends on partner networks to deliver goods and services to their customers.

## **METHODOLOGY[8&9]**

A model for CRM implementation; this model is defined based on these five basic factors:

- 1- Making customer database.
- 2- Data base analysis.
- 3- Customer classification and choosing appropriate strategy.
- 4- Determining how to communicate with specific customers.
- 5- Evaluation success gages.

## **MAKING CUSTOMER DATABASE [10]**

The first and most important step to implementation of CRM is to make a database which is the basement of customer relationship management. A good data base software should gather customer information in the following area:

Transactions: a complete history of customers' purchase, such as: time, product, price of each product, total price, and payment condition.

Customer connections: it must be included of all connections that went through different channels, such as: phone call, E-mail, fax and so on.

Descriptive information: the data that is useful for classification and other analysis of the customers, such as: address, job, personal information, etc.

- Marketing motivation responses: information pertain to customer response to direct marketing and other connection tools.

It's important to know that sometimes unnecessary information just take too much time and room to save and analyze, so be careful about what you keep in database.

## **ANALYSIS OF DATA BASE[11]**

In this step we try to analyze the database to classify different customers. In one approach customers are divided into 5 groups as follow:

### **1- First-grade customers**

Customers who at first come to your organization for their demands and if you can't satisfy them they give you a deadline then they go to your competitors organization.

### **2- Second-grade customers**

Customers who at first come to your organization for their demand and if you can't satisfy them they go to your competitors organization directly.

### **3- Others: are divided into 3 groups as:**

### 3.1- Temporary customers

They come to your organization at random and there is no deadline.

### 3.2- Competitor's first-grade customers

They at first go to your competitors' organization but there is no deadline for that.

### 3.3- Competitor's second-grade customers.

They at first go to your competitors' organization and give them a deadline.

To analyze the database we should measure following factors:

- 1- Number of customer transaction in customer life time.
- 2- Average of duration between transactions.
- 3- Duration between one transaction and previous one.
- 4- Money trade amount in each transaction.
- 5- Total amount of money trade in customer life time.
- 6- Average of money trade per time unit.

It's important to say that the unit of all factors must be the same to be able to compare. The other point to mention is that by analyzing the database the manager can predict the trend of every customer's purchase.

## **CUSTOMER CLASSIFICATION AND STRATEGY DETERMINATION**

The implementation of an efficient CRM strategy requires the introduction of a customer-focused organizational culture. Today, many companies employ operational CRM systems to better communicate with their customers. But successful CRM means more than simply being connected to customers, it means tracking customer behavior and using this data to maximize customer's profitability and loyalty throughout the entire life cycle, from customer acquisition to retention (Cody, 2000).[12] This orientation has as a core concept the CLV.

The CLV consists in taking into account the total financial contribution-i.e. revenues minus costs-of a customer over his or her entire life of business relationship with the company. Despite its simplicity, the measurement of CLV requires great care. All cashflows involved in the process have to be identified and measured on a very detailed level, and allocated precisely to each customer or type of customer. The diagram in Fig. 2 represents a concise seven-step approach to measure CLV (Bacuvier et al., 2001).[13]

Segmentation is the key to understand the lifetime value of a specific customer, and to apply the most appropriate customer management strategy (Bacuvier et al., 2001).[13]

The implementation of an efficient profiling/segmentation methodology has to address the following issues (Thearling, 1999; Wundermann, 2001)[14]:

1. Robust transaction data, properly collected and updated;
2. Data warehousing capabilities for capturing and storing the data (databases);
3. An associated retrieval and data delivery system;
4. Data mining tools that reflect the unique nature of the business;
5. Detailed costing information, including the process cost, as well as the physical product or service cost;
6. A meaningful business model that represents clearly the company–customer interaction and the fluctuation of customers' and business' lifecycle.

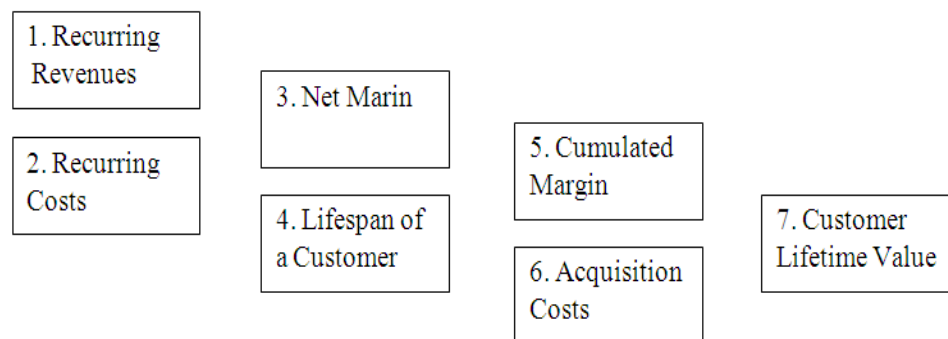


Fig 2 . Seven-step process to measure CLV ( adapted from Bacuvier et al . ,2001)

## HOW TO COMMUNICATE WITH CUSTOMERS

Customer churn means the loss of existing customers to a competitor. Accurately predicting customer behavior may help firms to minimize this loss by proactively building a lasting relationship with their customers.[15]

Customer A was satisfied with the product purchased, but dissatisfied with his relationship with the company. This customer type is vulnerable to switching. The customer/company relationship profoundly affects how a product or company is viewed and affects customer behavior. Properly managed and serviced, this category of customer can become a significant source of future transactions and move into the loyalty quadrant. Customer B is the type of customer every company desires: very satisfied with the product and the relationship with the company. The company can count on his repeat purchase, and will most likely benefit from referral business via positive word-of-mouth. Customer C is most undesirable, being seen as a Saboteur to the organization. A bad experience with the product and the relationship with the company guarantees that he/she will never buy from the company again. This category of customer will badmouth the company because they feel wronged, which compounds the

problem, as they tell others about their bad experience and discourage potential customers from ever interacting with the company.

Customer D was not satisfied with the product, but is hopeful that the next purchase will be satisfactory. A good relationship creates a reservoir of goodwill upon which the customer is willing to give the company or product another chance.[16]

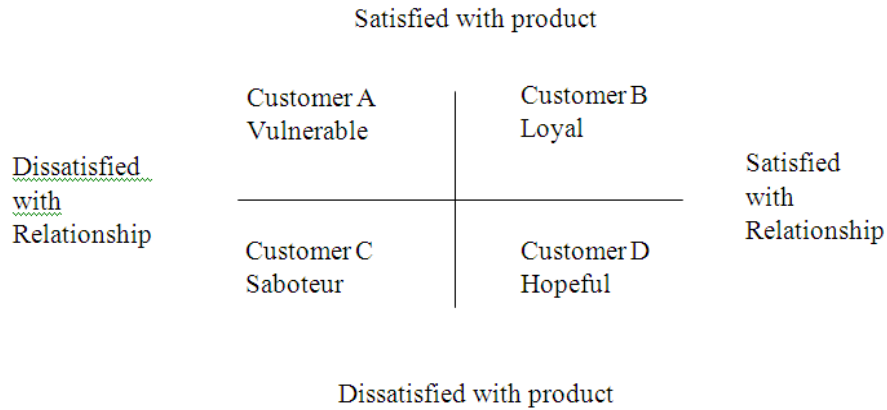


Fig 1 . Loyalty Matrix –adapted from Conway and Fitzpatrick ( 1999)

As you see in the picture above the only thing a customer wants is not just price or quality they want to have a good relationship with the shopkeeper.

One way to know that what a customer wants from a shopkeeper is to ask him/her, to do this. The manager of one of the biggest Esfahan steel company's store surveyed its customers, gave them a questionnaire and asked them to fill it out and advise the manager to improve its relations and services. This survey was done for 3 months and about 1000 people took place.

## RESULTS

After scrutinizing the survey the manager point to ten tips for promoting the organization relationship with its customers as follow:

### 1- Price

Less price = more customer = more purchase = more profit

### 2- Quality

More quality = more customer = more purchase = more profit

### 3- Variety of price and quality

Customers want to go to a store that has a variety of products with variety of prices and qualities, they want to have alternatives to choose.

#### 4- Social relationship and communication

Customers want you:

- to answer them politely and patiently.
- to be handsome and kind
- to be fast
- to give them some advice

#### 5- Demand supply

Customer wants to buy all his demands in the same place. He hates going from one place to the other place to get his demands.

#### 6- Different ways to connect to customer

You need to have connection with your customers in three phases: marketing, selling and service, you should choose the best way for each phase.

Different ways of making connection with your customers are:

- face to face      - TV and radio      - internet and advertising sites      - news papers
- billboards      - brochures      - phone and SMS

#### 7- Layout and appearance

Customers like to reach what they want easily, they want to go to clear and tidy stores in which products are shining.

#### 8- Work time and commitment

Customers need to know your work time and they want to be sure that you work during that time, they hate to come to your store and see it is close.

#### 9- Facilities

- different ways of payment
- consignment products system
- reduction system
- lottery and awards

#### 10- Efficiency of job-place

Customers want a store to be in the right place.

In general we can conclude:

Customer expectation > your performance then customer is unsatisfied

Customer expectation = your performance then customer feels good

Customer expectation < your performance then customer is satisfied (becomes loyal)

### **SUCCESS EVALUATION GAGES**

To evaluate your performance you need some gages to measure, then you know weather change or correct the organization's strategy or continue the previous strategy. Here are some gages that you can measure:

1. Compare the number of customers with previous.
2. Compare the amount of trades during the strategy was running with the past.
3. Compare the degree of your customers with the past.
4. Compare your profit with the past.
5. Ask your customers to tell you about your performance.

Continuous promotion is the most important issue that you should care about. It's necessary for you to become better and better every day and it will be possible if you promote yourself, your staff and your organization's conditions. Don't forget the most important issue that CRM focuses on is customer, customer and customer.

### **CASE STUDY**

You have already seen the banks which have a system to give you a fiche in order not to stay in long cue, these fiches tell you that how many people are in front of you , so you can estimate when to get back and do your work fast an without delay. You know that there is long cue for buying bread in bakeries in Iran too. One bakery implemented a very interesting system so that people could phone the shopkeeper and order how many bread they want, the shop keeper has a list of people and the quantity of breads that they have to bake so he estimates the time when the breads get ready and tells the customer when to come to bakery and receive their order, there is a system of delivery for their registered customers too. They have made a database for their customers, and gave a number to their constant customers, in the database they have the address and phone number of each customer and determined a pass word for them in order not to make mistakes. Some customers have subscription and the manager knows when and how many they need bread, so he sends their orders. For customers who are not registered there is a kind of fiche that tells them when to come back and receive their order. The manager of the bakery said since they have implemented this system there is very little cue and the number of their customers and their profit has increased. The survey tells us that both customers (who are registered and who are not) are satisfied and the managers of the other bakeries want to try this system too.



| 2- Amount of sailing in Shahrvand |           |           |                     |           |                     |
|-----------------------------------|-----------|-----------|---------------------|-----------|---------------------|
| 9 months of years 85-87           |           |           |                     |           |                     |
|                                   | 85        | 86        | rate of development | 87        | rate of development |
| sale ( million rial )             | 1'098'288 | 1'430'420 | 30%                 | 2'013'802 | 41%                 |

| results of survey in Shahrvand |        |        |       |
|--------------------------------|--------|--------|-------|
|                                | 1387   | 1386   | 1385  |
| satisfaction of price          | 65%    | 65%    | 77%   |
| satisfaction of quality        | 98.50% | 99%    | ##### |
| satisfaction of variety        | 99.50% | 98.50% | 99%   |
| satisfaction of relationship   | 96%    | 96%    | 98%   |
| other important criteria       | 92.50% | 93.50% | 95%   |

## CONCLUSIONS

This paper studied the advantages of CRM application in retail industry and demonstrated the importance of CRM in today's retail business. It introduced a procedure to classify different customers and told us how to make a relation with them. As it was said there are two main approaches for different customers. One approach tells us how to communicate with all customers of the organization to attract new loyal customers and the other one indicates the best way to communicate with special customers to retain them for a longer period of time. At last we concluded that in retail industry there are 10 absolutely essential points which help your organization to be profitable and increase its selling so that it could survive and make your customers satisfied and loyal.

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