Customer Relationship Management:

IN B2C MARKETS, OFTEN LESS IS MORE

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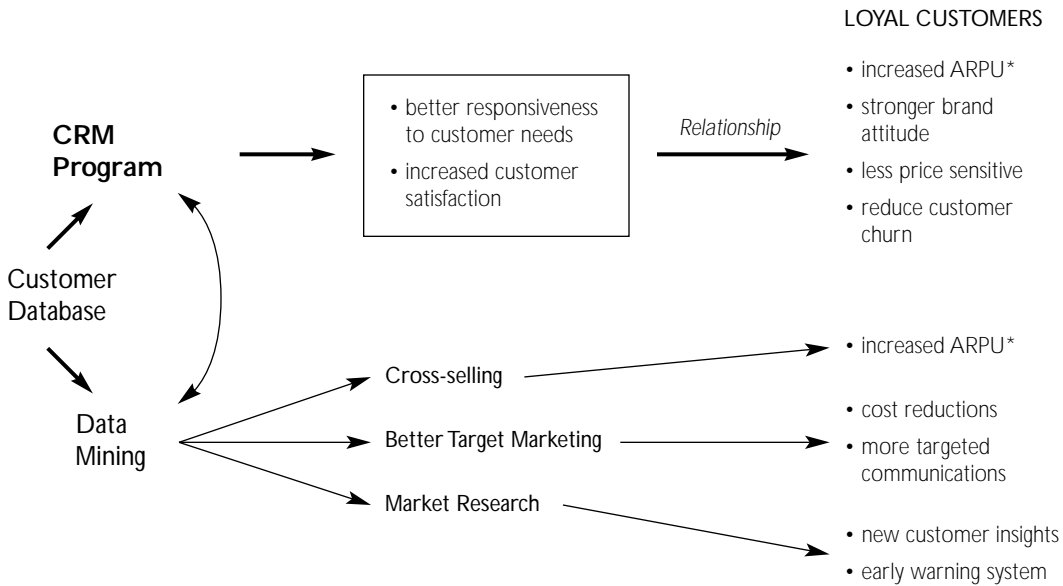## IN B2C MARKETS, OFTEN LESS IS MORE

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ustomer Relationship Management (CRM) is premised on the belief that developing a relationship with customers is the best way to get them to become loyal and that loyal customers are more profitable than non-loyal customers.[1] Frederick Reichheld has argued that a company can achieve significant increases in profits from only small improvements in customer retention rates. The strategy is to engineer increased customer retention, often with strategies labeled as CRM or Customer Loyalty Marketing. Research indicates that these schemes are generally liked by customers.[2]

In recent years, the academic marketing community has began to question some of the key premises that are used to support CRM in general, and relationship marketing and customer loyalty programs in particular. These academics base their skepticism on two sources of information. One is a 30-year research tradition that focuses on the empirical patterns of purchasing for a wide variety of consumer products and services. The second is some emerging research that tests the key assumptions that underpin CRM and the effectiveness of the CRM tactic of customer loyalty programs.

Customer Relationship Management

CRM had its origins in two unrelated places. One was in the U.S. where it was driven by technology.[3] Under the direction of marketers, information technology and statistical algorithms were developed to increase the efficiency and effectiveness of selling what a company makes. CRM systems such as call centers, web sites, customer service and support teams, and loyalty programs

FIGURE 1. How CRM Works

LOYAL CUSTOMERS

CRM Program

Customer Database

Data Mining

• better responsiveness to customer needs

• increased customer satisfaction

Relationship

• increased ARPU*

• stronger brand attitude

• less price sensitive

• reduce customer churn

Cross-selling

Better Target Marketing

Market Research

• increased ARPU*

• cost reductions

• more targeted communications

• new customer insights

• early warning system

* ARPU = average revenue per user

are used to manage the relationship with customers. Good examples of this approach can be found at <www.cyberdialogue.com> and <www.siebel.com>.

Database-driven CRM has claimed significant improvements in identifying profitable (and unprofitable) customers, increasing the efficiency and effectiveness of target marketing, and increasing customer satisfaction. Critics have argued that: gathering an extensive amount of information about customers ("a 360 degree view") raises concerns about privacy; managers concentrate less on what customers really want (their latent and expressed needs) and more on what the data patterns suggest they may want; and relationships seldom develop beyond satisfaction into rapport because they start with the seller "targeting" the customer and then attempting to seduce them.[4] CRM programs have also experienced some significant implementation problems. Examples include, the high turnover rates of staff in call centers, the frequent cost blowouts associated with constructing a data warehouse, problems implementing new information technology systems, and the high cost involved in designing a new information architecture to support mass customized selling.

Figure 1 presents a snapshot of how database-driven CRM is thought to work. The top row of effects leads to building relationships with customers and thus establishing customer loyalty. Depending on the type of product (e.g., high or low involvement), this relationship can be based on an affective association

or it may simply be the result of convenience and self-interest. The bottom row of effects lists well-accepted outcomes of data-mining activities. Together these two sets of outcomes have stimulated many companies (both manufacturers and retailers) to invest in creating a database-driven CRM system.

The second place CRM developed was in B2B marketing in Scandinavia and Northern Europe. The IMP (Industrial Marketing and Purchasing) Group has been instrumental in developing our understanding about the nature and effects of building long-term, trust-based relationships with customers.[5] These are typically managed by marketing and sales. They may be based as much on the structural ties between companies as they are on personal relationships among managers. Here, the emphasis is on understanding customer needs and then solving problems or delivering benefits that create demonstrable customer value. While information technology is important in this style of CRM, it is designed to support, rather than drive the customer relationship. The types of relationship that develop here are often deep and meaningful—both for the companies and the people involved.

The idea that the "relationship" part of CRM is the key to the success of these programs is a very important issue, as evidenced by a recent survey of 600 senior managers in six broad industry categories (financial services, government, IT and communications, retail, and utilities).[6] Overwhelmingly this group believed in the value of long-term relationships for future success.

Relationships

The November 2000 issue of the business magazine *Executive Excellence* contained four articles titled: "Customer Love," "Customer Intimacy," "Customers for Life," and "Customer Loyalty."[7] Each consultant-author extolled the virtues of retaining customers for the longest period possible by developing a strong relationship with them. Against such a backdrop, few managers are prepared to say publicly that they don't want a relationship with their customers.

However, there is considerable anecdotal evidence to suggest that many customers do not want a relationship with most of the products and services (and thus the companies) that they buy. People simply don't have the time, interest, or the emotional energy to form relationships with a wide variety of products and services. The reason for this is that relationships are special. They involve two-way trust, commitment, the sharing of information, partnership among people of equal standing, and so on. This is the model of a relationship that most people carry around in their head and their heart. In B2B markets, relationships involve "having skin in the game." In addition, B2B relationships are designed on the understanding that each party contributes to the commercial success of the other.

In B2C markets, the nature of a seller-customer relationship becomes somewhat paradoxical. The paradox is the problem of trying to form a "relation-

ship" with customers while at the same time trying to make a profit by selling products and services to them. The social nature of a relationship juxtaposed with commercial reality suggests that only in certain types of situations will special types of "relationship" be achievable. Recent research suggests that customers understand this paradox. They do not confuse commercial exchanges and the false intimacy proffered by companies as an interpersonal relationship.[8]

The counterpoint to this argument is an interesting stream of research that started in the 1960s. William Wells and others suggested that there were deep psychological motivations underlying the attitudes people formed towards the brands they bought.[9] Customers were segmented according to their "psychographic" (lifestyle) profile and they were assumed to form strong, emotional bonds with their brands. During the next 20 years, researchers explored the roles of brands and how they have both private and public meanings for people. For example, they can be used to:

- present the self to others (a phatic role),
- create a sense of identity (a self-image role), and
- signal one's personal and cultural values (a social role).

This research also suggested that the meanings people attach to brands can be situationally based. Thus, for many people, brand meaning is malleable—shaped by both situation and culture. Sometimes these forces converge to create distinct subcultures of consumption—as with bikers, golfers, runners, skydivers, and surfers.

Following on from this research, Jennifer Aaker proposed that brands have distinct personalities defined along the dimensions of sincerity, excitement, competence, sophistication, and ruggedness.[10] From the perspective of interpersonal relationship theory, Susan Fournier also suggested that consumers form different types of explicit relationships with their brands.[11] This research largely ignored two important findings from the previous research, namely, the contextual nature of brand meaning and the fact that many people do not use brands to define their lives.

When some academics and practitioners stretched the relationship view of marketing to the world of fast-moving consumer goods (known as FMCG), it caused others to question first the application of this theory to these low-involvement products and second its broader applicability to other products and services.[12] One poignant avenue of the attack on this relationship school of marketing was the evidence presented by Fournier to support her theory. In one case, she interviewed three respondents for 12-15 hours each (in four or five in-house sessions).[13] In another case, she used two to three-and-a-half hour interviews with eight coffee drinkers as feedstock for her theory of consumer-brand relationships.[14]

This style of research is often used to generate propositions that are subsequently empirically tested. However, to date there has been a paucity of this type of research to indicate the generalizability of her findings. What seems to

have happened is that because Fournier's research has been published in some respected journals and cited often, its general applicability has been assumed by many readers and has been used to support the development of many brand-relationship marketing activities.

A second avenue of concern about FMCG and brand-relationship marketing is that it seems fatuous to many people. Do many buyers of Maxwell House, Sanka, Tasters Choice, High Point, Folgers, Nescafé, Brim, and Maxim really develop an emotional bond with their coffee? Do they develop a bond with the retailer where they buy these brands? Our sense would suggest that some customers might use their coffee brand for the roles outlined earlier, but most people would not. Research also supports this skepticism. For example, two recent studies of Australian and UK consumers by the Carlson Marketing Group suggest that only 11% of people say they felt "extremely close" to brands.[15] Also, research suggests that the major decision when buying grocery brands is whether or not to buy from the product category. Brand choice, for most people is a much less important decision.[16] Hence, when evaluating the qualitative research by Fournier and others it is important to think about where the respondents were selected from on the overall distribution of customers (e.g., highly involved with coffee brands through to no interest at all).

There are situations where anecdotal evidence indicates that forming a relationship with a brand and/or the retailer selling it will be relevant. In markets where psychological and social value dominate function (such as luxury goods, cosmetics, and lifestyle brands), there may be a significant "brand component" that drives consumer choice and commitment. Some consumers may attribute a personality to the brand and want a relationship with it. For example, if you are Harley-Davidson selling big motor cruisers and the feeling of being free and somewhat rebellious, then forming a relationship with your customers makes sense. Here, much of what is being bought is social and psychological in nature. The motorbike is really a "ticket to entry" to one of the various Harley-Davidson subcultures. The company creates much of the "product" by fostering the core values of personal freedom, machismo, patriotism, and American heritage.[17] They manage the customer relationship with a CRM program that involves bike rallies, services, clothing, collectibles, and their HOG club.

If customers don't want a relationship with a product or service, they may still appreciate a relationship with the retailer that sells them. Many such schemes have been launched across a range of retail formats. In areas where product bundling is important to help the customer construct the desired outcome (e.g., with clothing, house-wares, cosmetics, and travel), many retail CRM programs have been successful. Here the program adds value to the customer experience and thus there is a significant quid-pro-quo for both parties.

Another potential value-adding avenue for CRM programs is to help customers establish a dialogue with the company. Many customer call centers, loyalty programs, and Web sites have been used to create such a communication channel. However, real dialogue is two-way communication. It requires up-to-

date, accurate, and comprehensive customer data. The current state of many legacy data systems undermines having a dialogue with "the masses."[18]

Another type of relationship to have with customers is not to have a relationship with them at all. Here the strategy is to just provide good products and services at competitive prices and be easy to do business with—with no strings attached. The company focus is to provide the best customer value—through its products and service—and nothing more, nothing less. Many customers will respond to this offer with the best type of loyalty imaginable—repeat purchase and positive recommendations to others. These "transaction" customers will also be less costly to serve than many "relationship" customers.

Research suggests that in these non-relationship markets favorable attitudes can develop about the brands, but they are more likely to be based on frequent satisfied use than any personality attribute of the brand or a relationship with it.[19] Also, the over-time stability of these expressed attitudes is not high. This evidence suggests that they do not reflect commitment or brand loyalty.

From a management perspective, the ultimate bottom lines of CRM programs are an increase in competitive standing and greater profits. Even for the oft-cited success of the UK retailer Tesco's CRM scheme, it is difficult to determine such bottom-line effects. The reason is that the loyalty scheme was introduced as part of a much broader program of new business development.[20] The paradox here is that good business practice requires an integrated approach to marketing, which will give rise to confounded measures of CRM success.

In summary, both anecdotal and research evidence suggests that customers who form a relationship with their brands, especially FMCG brands and the retailers that sell them, are the exception not the rule. Even so, it may be the case that there are enough of these customers such that a company could develop a very profitable CRM strategy with them. What makes such a strategy desirable is if these relationship customers stay with the company longer and the economics of serving them make this group more profitable.

On the Profitability of Long-Life Customers

A basic assumption of relationship marketing is that long-life customers are more profitable than short-term customers. Although arguments and case studies are plentiful, systematic empirical evidence is rare.[21] Also, much of the evidence is based on cases that involve fixed-term contracts (such as for cell-phone services) or memberships (such as with a book club). In these situations, the cost to acquire customers is amortized over the lifetime of the relationship and the company need only spend funds to ensure customer satisfaction. In the more common non-contractual setting (such as buying from a department store), acquisition costs are repeated and the company must also spend money to keep the relationship alive.

Contrary to the line of argument that long-life customers are more profitable, Grahame Dowling and Mark Uncles caution that loyal customers will often be less profitable.[22] One reason for this is that they may expect a reward for their loyalty. This may be in the form of a price discount (for accumulated volume) or extra free services. Also, short-term (or spot-market) customers may be prepared to pay the asking price and expect little extra from the supplier. In particular, Dowling and Uncles question three of the basic assumptions that under-pin the profitability of long-life customers, namely:

- the costs of serving these customers are less,
- they pay higher prices, and
- they spend more.

Dowling and Uncles based their criticisms on the arguments noted in the previous section and a 30-year research stream that profiled the general purchase patterns of FMCG buyers. Recently, however, their criticisms were tested directly by a substantial empirical study. Werner Reinartz and V. Kumar studied the customers of a large catalog retailer to see if they could find support for the three assumptions listed above.[23] They found no substantive support for any of them and their overall finding was that "long-life customers are not necessarily profitable customers." To illustrate their findings, the correlation between lifetime duration and lifetime profit was 0.2. In other words, only 4% of the profitability of a customer is explained by the length of time that the person was a customer with the company.

What this study indicates is that it is the amount of money that a customer spends with a company that drives their lifetime value to the company—regardless of how long they have been or are likely to be a customer of the company. Hence, marketing strategy should be focused on revenue generation (ARPU in Figure 1) and transaction-cost management in preference to the creation of loyal customers. The tactics for this are quite different from those used to create loyal customers. For example, given a budget that would only support either a cross-selling or a customer-affinity program, the cross-selling approach would be preferred.

One way to cross-check the findings of the Reinartz and Kumar study—and the recommendation that managers should focus on revenue enhancement as opposed to customer retention—is to look at the ability of customer loyalty programs to enhance customer profitability. There is little argument that these programs keep their customers "on the books" for an extensive period of time. However, the crucial question is "Are these customers more profitable?"

Customer Loyalty Programs

Many years ago while he was at the London Business School, Andrew Ehrenberg coined the phrase "the leaky bucket theory of marketing." He argued that many marketing managers designed their marketing strategies to stem the

flow of customers lost to their competitors. One contemporary strategy to stop customer defections is the modern Customer Loyalty Program. These programs give customers rewards for repeat purchases and are very common in developed countries. With increasing levels of competition and stagnant revenues in many product categories, these programs are likely to become more widespread.

Over the last 30 years, Ehrenberg and his colleagues have shown that the leaky bucket theory is a misguided approach to marketing FMCG brands. They conducted hundreds of studies that show that only about 10% of buyers of a wide variety of FMCGs are 100% loyal to a particular brand over a one-year period. Even in service situations, exclusive loyalty is confined to a small percentage of buyers. Moreover, 100% loyal buyers tend to be light buyers of the product or service. This research indicates that, in stationery markets, consumer "loyalty" is more likely to be divided among a portfolio of brands. Hence, most people do not buy a single brand in a product category over a reasonable period of time.[24]

When most people exhibit multi-brand buying or "polygamous loyalty," then what can a Customer Loyalty scheme hope to achieve? If it is designed as an offensive weapon, it may secure a temporary first-mover advantage. However, if it looks as though it will change customer purchasing patterns, it will soon be countered, often by the introduction of a similar or (slightly) better scheme. For example, two weeks after American Airlines launched the first frequent-flyer program (AAdvantage), United Airlines launched its Mileage Plus program.[25]

Once these programs become established in a market, their patterns of use often mirror the purchase patterns of the products and services they support. For example, most frequent flyers in Europe are members of three to four frequent-flyer schemes—they exhibit polygamous loyalty to the schemes as well as the airlines. Typically, the infrequent flyers are members of only one scheme.[26] It seems that these "golden handcuffs" neither induce single-brand loyalty among the heavy-users nor significantly more purchases by light-users. First and foremost, customers want a product or service that does the job required. If there is an add-on benefit offered by a Customer Loyalty program, then people will join if it is "free"—in the case of frequent-flyer programs, they will use convenient airline alliance partners to get every entitlement they can.

People tend to participate in loyalty schemes because, for example, they like to collect entitlements or they see these schemes as a form of (delayed) price discount. Few, however, seem to participate because they want to change their established patterns of purchase or form a deep-seated relationship with the company involved. Research by Robert East and Wendy Lomax in the UK suggests that customers join the schemes of the companies they use rather than use the companies whose schemes they have joined.[27]

This perspective suggests that only modest changes in consumer behavior can be made from even a well-designed Customer Loyalty program. Bryon

Sharp and Anne Sharp set out to test this contention.[28] They studied Australia's biggest loyalty program and one of the world's largest in terms of per capita market coverage. The program is called *FlyBuys* and at one stage the retail outlets involved were responsible for more than 20% of Australian retail spending. Two years after launch it had more than two million members and an annual operating budget (not including customer rewards) in excess of $20 million. The program offered points for department and supermarket store patronage, credit card use, and petrol buying that could be redeemed for free air travel and accommodations.

The Sharp and Sharp study used consumer panel data and statistical modeling to establish "normal" patterns of repeat-purchasing as the benchmark and then looked for departures from these predictions as evidence of the impact of the *FlyBuys* program on creating excess loyalty. Two conclusions from this study are noteworthy. First, the authors state that they "do not observe the consistent finding of *FlyBuys* brands showing higher levels of average purchase frequency given their individual levels of penetration."[29] Second, they state that "of the six loyalty program brands, only two showed substantial repeat-purchase loyalty deviations and both of these showed this deviation for non-members of the loyalty program as well as members."[30] Given that *FlyBuys* was one of the biggest, loudest, and boldest attempts to use a Loyalty Program to re-engineer patterns of repeat purchase, these results are not encouraging for marketing managers and consultants extolling the virtues of such programs.

The research cited in this section suggests that Customer Loyalty programs will have neither a substantial nor a long-lasting effect on customer purchasing habits or the amount of product purchased. Added to this finding are persistent rumors from the business world that suggest that airline alliance and loyalty schemes have "completely failed."[31] Also, research done by McKinsey & Company is suggesting that companies should re-evaluate their loyalty schemes as a matter of urgency.[32]

Putting Customer Relationships in Perspective

For most of the products and services we buy on a regular basis, brand preference exists. The crucial question is whether it can be attributed to some type of relationship we develop with the brand or whether it is driven by salience (we know more about some brands than others), availability (it is in stock where we usually shop), and/or habit (the brand usually bought). Extensive empirical research for FMCG brands suggests that for most people it is these last three factors rather than a developed relationship.[33] As noted above, there are some exceptions to this finding (such as Harley-Davidson motorbikes, the VW Beetle, Apple Macintosh personal computers, Marlboro cigarettes, and Body Shop cosmetics). However, given the tens of thousands of brands in the market, even a hundred or so such brands represent the exception not the rule. Hence, a CRM program designed to build a deep-seated relationship with the "typical"

Qantas Manages the Expectations of its Loyal Customers

Here is a summary of *some* of the Terms and Conditions of membership of the Qantas Frequent-flyer program:

- a once-only joining fee

- an account-service fee charged every two years in advance

- retain all boarding passes, airline tickets, receipts and documentation for point adjustment requests

- the Qantas Frequent Flyer membership card provides no benefit other than identification

- Qantas Frequent Flyer expressly reserves the right to terminate or materially alter the program at any time, without notice

- Qantas Frequent Flyer reserves the right at any time in its absolute discretion and without notice to revoke membership of any member to utilize any reward or benefit

Source: Qantas Frequent Flyer brochure (Valid from 01/07/00).

customer of a brand is more likely to be a romantic distraction than a cost-effective marketing strategy.

The inherent problem with CRM is identified in its name by the words *relationship* and *management*. It will be difficult for customers to have much influence in the relationship if companies seek to manage it—to their profitable advantage. A vivid example of this "management" is shown in the frequent-flyer program application form of Australia's major airline, Qantas (see sidebar). The application has a section on "Terms and Conditions" from the airline's legal department. It is interesting to speculate on the type of customer relationship that starts out with "a talk from our lawyers," requires a joining fee, and has a membership fee.

The simple way to check the nature of a brand is to segment customers according to the strength of relationship *they* would like to have with it (from strong to none) and then for the "willing" segment, determine the type of relationship they have with the brand. For example, in the case of Harley-Davidson we would expect that a large proportion of buyers would have a strong relationship with the brand and this would be: deliberate and positive (as shown by the care taken of these bikes); enduring (sometimes evidenced by the owner wearing the company name and logo on their clothing and occasionally as a tattoo); social (Harley owners recognize each other); and two-way (they would expect special treatment from the company in return for their support of it).

In contrast, we would expect a much lower proportion of coffee buyers to have a strong relationship with their brand(s). We would also probably find more variance in the nature of these relationships. For example, one of

Fournier's subjects named Pamela, a single mother in her late-30s, is strongly attached to the brand of coffee she has bought for the last five years. She describes this relationship as "falling in love" with the brand. Another subject named Sara, a 23-year-old who had recently come out as a lesbian, says that her coffee brand helps to reinforce her positive identity.[34]

The preference for a brand that results from a good fit between the personality of a brand (either constructed through its marketing or attributed to it by a customer) and a customer's self-concept is considerably different from a brand preference derived from the formation of a relationship between the customer and the brand. The work of Wells and Aaker has a stronger research tradition and it provides a more plausible explanation of the preference for most FMCG and lifestyle brands. The customer relationship metaphor advanced using the vocabulary of Western interpersonal relationships seems a less convincing explanation. Where this model may have more applicability is where person-to-person marketing is critical, such as in situations where salespeople are involved.

The Choice of Strategy: CRM or CPM?

In many consumer markets, CRM would be better reformulated as CPM—customer profit management. However, when CPM is implemented with a heavy CRM bias, it often motivates marketing managers to try to "buy" rather than "win" the patronage of their customers. It also leads to a strategy that focuses on "share of customer" as opposed to "share of market."

The research cited earlier shows that in most FMCG, service, retail, and lifestyle markets, polygamous loyalty is a better description of product category purchasing than single-brand loyalty. There are many reasons for this, for example:

- different brands are used in different occasions (e.g., French Champagne for celebrations, Riesling with fish);
- brands are complementary not substitutes (e.g., the *Wall Street Journal* for the daily news and *Business Week* for more in-depth company analysis);
- it is necessary to combine various brands in order to create a complete product (e.g., with clothing, cosmetics, cooking, travel);
- some brands don't offer the full range of services desired (e.g., a retailer, radio station, and television channel);
- variety is a desirable benefit (e.g., French, Italian, Mexican, Chinese, and Indian restaurants);
- the desire for novelty (let's try something new);
- different members of a household want different brands (e.g., different shampoos for dry, oily, and thin hair);
- in an out-of-stock situation at the supermarket, many people buy another brand in the category rather than go to another store; and

- the lack of meaningful differentiation and the functional similarity of many brands and retailers in a product category make them easily substitutable for many people.

When conditions such as these apply, a marketing strategy that seeks to increase the "share of wallet" of a customer devoted to a single brand can be counter-productive. In some cases, such as personal investing or eating out where variety is essential for one's wellbeing, it can actually be against the customer's best interests. If there are good reasons for customers to be loyal to multiple brands in a product category, then it will be a difficult and expensive process to try to convince them to behave otherwise. It will be even more difficult to achieve a return on this type of marketing investment when other major competitors are trying to do the same thing—such as the airline frequent-flyer programs.

In many cases, seeking a high share-of-market is a more appropriate customer profitability strategy than seeking a high share-of-customer. In fact, the research on the polygamous loyalty of customers in stationary markets suggests that this is the best strategy to adopt. The support for this claim is based on one of the few empirical "laws" in marketing, namely Double Jeopardy.[35] This law states that in any given time period, a small brand typically has fewer buyers than a larger brand. In addition, its buyers tend to buy it less often. Thus, the less popular a brand, the less loyal (both in terms of attitudes and purchases) its buyers tend to be. Hence, the way to become a big brand is to gain more buyers. We see this strategy being played out by many companies in the dot-com world. For example, Amazon.com's strategy is essentially to "get big quick." They then hope that this will result in a "winner take all" outcome.

How CRM Programs Actually Work

Figure 2 shows how CRM and customer loyalty actually work. The arrows that are crossed out represent the conventional wisdom that recent research suggests is dubious. The dashed arrows indicate the likely weak effects of many CRM initiatives such as the ubiquitous customer loyalty programs. Figure 2 suggests that an FMCG brand or retailer supported by a CRM program has an additional attribute to promote. This extra attribute may appeal directly to a small number of the brand's customers and thus enhance its perceived value. However, the more significant effect is likely to be that it raises the profile of the brand in the marketplace—until it is copied. Each of these effects can support the brand's share of market and share of the customer's wallet.

Given that CRM is likely to have a relatively weak effect on both share-of-market and share-of-customer, it is legitimate to suggest their overall cost effectiveness is doubtful on this basis alone. Hence, the question: "Why do companies persist with these programs?"

Apart from trying to build strong relationships with large numbers of customers, there are two ways in which CRM programs may be an effective

FIGURE 2. How CRM Really Works
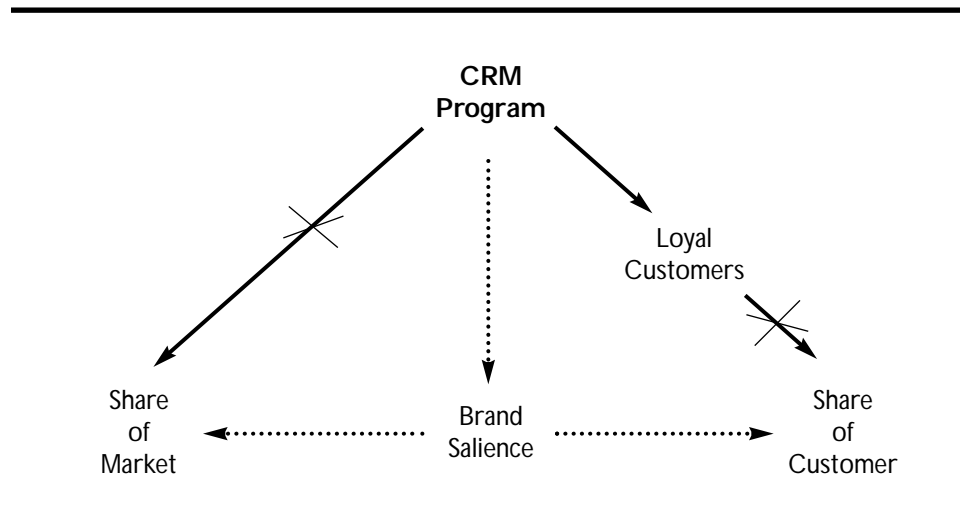
use of a marketing budget. First, in many cases they are a purely defensive tactic. If a direct competitor launches such a program, other competitors match it. In this scenario, a CRM program is part of the price the company pays for being in the market.

The second reason has been suggested by two game theorists, Barry Nalebuff and Adam Branderburger in their book *Co-opetition.*[36] They suggest that CRM programs are a strategy that competitors use to help avoid starting a price war. For example, when all the airlines have a frequent-flyer program, they all increase the switching costs of their customers—and the higher the percentage of flyers who belong to any program, the better for all. When these programs become established, it takes a bigger price cut to entice a competitor's customers to forsake their points. It also makes it somewhat easier for the major airlines to raise their prices—especially for travelers with large numbers of points. Thus, price cuts are less effective and price rises less risky.[37] In effect, the airline programs are a good example of "co-opetition."

Regardless of the reason for launching a CRM program, one of the major problems for schemes that are based on redeeming points is the long-term liability this creates for the company. The accounting for these points has been a particular problem for the airlines. Having expiration dates on the miles and making them difficult to redeem are only partial solutions. These tactics just transfer an accounting cost to a brand-equity cost.

Evaluating the Potential of a CRM Program

In highly competitive markets, a CRM program may be a defensive strategy used by many competitors and a way to dampen the level of price

competition in a market. If these are not the objectives of the program, but rather the goal is to engineer customer purchasing, then the following evaluation procedure could be followed.

The first step is to conduct an audit of the market in which the brand competes. Can this market be described by the Double Jeopardy Law? If it is one where the competing brands are functionally similar but differ in their popularity, then there is a good chance that the Double Jeopardy Law will hold. It has been found to be the case for repeat buying behavior in markets such as: most grocery packaged goods, store choice, television program and channel choice, newspapers, some durable goods (e.g., automobile makes), some educational services (e.g., business school executive programs), and some industrial products (e.g., contracts for aviation fuel). It has been found for these brands in Australia, Britain, Continental Europe, Japan, and the United States.

When a Double Jeopardy Law brand is recognized, advocates suggest that a penetration (share-of-market) strategy is appropriate. The objective here is to increase the number of buyers of the brand, but not how often or how much they buy. (The assumption here is that people will only buy what they need.) Marketing programs that increase the salience of the brand, such as more advertising and wider distribution, should be cost effective. Sometimes the publicity surrounding a new customer loyalty program (such as *FlyBuys*) will also provide a temporary increase in salience. Another tactic is to increase the inherent value delivered to the customer. A better customer value proposition can be delivered by enhancing the product/service (more features, better quality) or by reducing the "price" (the amount paid, making it easier to buy the brand, reducing the perceived risk of the brand) relative to competing brands. These are traditional ways to allocate a marketing budget.

If the brand does not conform to the Double Jeopardy Law, then advocates suggest either a penetration strategy or a loyalty strategy. (It is always a good idea to have as many potential buyers as the company can service.) The objectives of a loyalty strategy can be to enhance the value of the brand and/or to increase the amount or how often current customers buy. (Recall that there seems to be little point in fostering customer retention unless it actually leads to increased spending by these long-life customers.) Customer clubs, rewards for purchases, extra services for members and product bundling programs are often used to increase sales. Cause-related and permission marketing have also been tried. As Figure 1 suggests, the motivation here is relationship-based, either the affective type or one based on convenience and self-interest. Sometimes, it is also possible to increase the amount of a product used by suggesting other use occasions, for example, tonic water as a mixer (with gin) and as a straight soft-drink.

Another loyalty tactic is to make the brand unique. Originally proposed by Rosser Reeves (and his Unique Selling Proposition) and later advocated by Jack Trout, this approach builds on the brand personality and relationship schools mentioned earlier.[38] To differentiate a brand, for example, one could

personify it (e.g., the Jolly Green Giant, the Michelin man, the Marlboro cowboy), identify it with the target audience (Miller Lite beer and ex-sportspeople), link it to a social aspiration (De Beers's "Diamonds are forever"), or link it to an important social value (Volvo and its passenger-safe cars). The irony here is that some of these brands would be Double Jeopardy Law brands and better served by adopting a penetration strategy. For example, Volvo is broadening its product range (by adding a sporty convertible, coupe, and an all-terrain passenger car) to appeal to a broader range of buyers. Volvo's "problem" is that it would do well to broaden its safety position from passive safety (e.g., modular construction, side-door air bags, ABS breaks) to passive *and* "active" safety (e.g., all-wheel drive and superior road-holding). In this way, Volvo would run less risk of alienating their existing customers while trying to attract new customers.

The crucial issue is to be clear about the marketing objective. It is seldom possible that a marketing budget will stretch to implement all possible programs to entice customers. It is also difficult for a company to successfully integrate quite different marketing programs to achieve a consistent brand positioning (e.g., Volvo). Hence, with a limited budget and the current plethora of suggestions from consultants, it is essential to be clear about the objective of a CRM program and to be realistic about what is likely to be achieved.

Conclusions

Customer Relationship Management is a seductive marketing strategy. However, research suggests that many of the programs used to implement CRM should not be expected to make significant changes in customer purchasing patterns—especially for FMCG brands. Given this prognosis, why do so many such programs exist and why are more being started? There are three complementary answers to this question, namely:

- CRM seems to be a logical extension of the current customer-focus logic of marketing. For this reason, it has intuitive appeal to many marketers.

- A number of big, high-profile companies have launched such schemes—hence, many managers perceive that there is a risk of being left behind.

- Often a direct competitor has a CRM program—hence, a similar scheme is needed as a countermeasure.

At best, each of these reasons is only an indicator of the potential success of a CRM program.

From a manager's point of view, the crucial question is how to achieve the best return from their marketing budget. The recommendations here are:

- First, start with a good description of the characteristics of the market—both customers and competitors.

- From this basis, select the appropriate broad marketing objective, such as avoiding a price war or gaining share of market or share of customer.

- Then, explore the cost effectiveness of how various marketing tactics will achieve this broad objective. For example, would money be best spent increasing the salience of the brand or the loyalty of current customers?

- Consider how competitors may respond to each initiative.

- Finally, determine the best way to collect information to monitor the effectiveness of marketing programs. For example, use a panel of customers representative of the market or mine the in-house customer database.

If a (potential) CRM program can survive this scrutiny, then it should be used. Otherwise, it should be ignored.

Notes

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