Second Edition

CUSTOMER RELATIONSHIP
MANAGEMENT

Ed Peelen
Rob Beltman

PEARSON

Second Edition

CUSTOMER RELATIONSHIP
MANAGEMENT

Ed Peelen Rob Beltman

'CRM has gone through many changes and developments over the years. But a constant factor is the inspiration Ed Peelen provides by combining solid theoretical knowledge with practical examples and business applications.'

Hans Zijlstra, Head of Customer Insight, Air France-KLM

'This book recognises the major shortcomings of most CRM books – that is, the focus on the tactical, systems approach to managing customers. This book establishes the need for CRM strategies not only to be developed, but to be consistently used as an aid to long-term organisational profitability.'

Dr John Oliver, Associate Professor, The Media School, Bournemouth University, UK

'This book inspired me during the defining process … of our CRM implementation at PricewaterhouseCoopers in the Netherlands. The book kept me on track and saved me from operational pitfalls. This CRM "bible" provides vision in establishing the backbone of any company's CRM programme.'

Gerard Struijf, Chairman PvKO (Platform for Customer-Centric Entrepreneurship), former Senior Manager CRM, PricewaterhouseCoopers, the Netherlands

• •

Most businesses know that how they manage their relationships with their customers is vital to their success. Yet the field of Customer Relationship Management lacks proper academic coverage. Ed Peelen's *Customer Relationship Management* is the only comprehensive academic text in English to cover the entire scope of CRM. This fully updated second edition cements its position as essential reading for anyone who wants to understand this continually evolving field.

Addressing the strategic, organisational, commercial and technological aspects of CRM, Peelen brings a social psychology perspective, blending theory and practice to aid a full understanding of the subject. The book is geared towards advanced undergraduates and MBA students, but is ideal for anyone taking courses in Customer Relationship Management, Relationship Marketing, Direct Marketing or Database Management.

Ed Peelen is one of the founders and partners of ICSB, a consulting firm in marketing and strategy. He was Professor of Marketing at the Centre for Marketing and Supply Chain Management, and the Executive Management Development Centre at Nyenrode Business University, the Netherlands.

Rob Beltman is also a partner at ICSB.

ISBN 978-0-273-77495-2

9 780273 774952

www.pearson-books.com

them to report specific data. External agencies, such as call centres, database managers, data entry agencies and fulfilment houses who are requested to process data, are subject to the instructions of the person or entity responsible for personal data protection. Consultancies, over which the contractor has no full authority, are not an external data processor in the proper sense of the word and are acting on their own authority. Contracts with third parties must always stipulate the responsibility for personal data protection very carefully.

The law states that no authorisation for personal data processing is required when it is directly required for the execution of a (sales) agreement or the taking of required pre-contractual steps at the request of the person involved. This includes, for instance, sending brochures to people.

Also, data processing can be undertaken when it serves the legitimate purpose of the organisation that is responsible for the data, as long as neither the fundamental rights nor the freedom of the individual are being violated.

In most other cases, all data processing involving data of a natural person or legal entity that is treated as if it were a natural person would require the explicit permission of the person involved.

The permission should leave no room for misconceptions or misinterpretations as to the extent to which the data may be processed. It is best to clarify what data processing is not allowed and in that sense wrongful and subject to penalties. The permission does not necessarily have to be given in writing, but may also be acquired in any other way that is legally binding. Registrations in contact centres or e-mail confirmations are also permitted.

The organisation has a legal obligation to inform the person, mostly the customer, when they acquire personal data. The illustration box below highlights how this might work.

The time at which notice needs to be given is the time of (initial) registration of the data or the time of receipt of personal data by the responsible entity from a third party.

The *duty to inform* is nullified when it is impossible to comply or if it requires efforts that cannot be reasonably be expected to be made by the responsible entity. This may be the case

CRM illustration

'Prior to accepting your application and in order to be able to process the agreement, XXX Inc. is requesting your personal data. We may use this information to inform you about relevant services of XXX Inc. and its legal subsidiaries. If you would prefer not to receive this information, you may indicate this in writing. Please send your objection to XXX Inc. P.O. Box 1234 . . .'

This example shows that the duty to inform is being met. The entity responsible for data collection and processing is named, and the purpose of processing explained. The right to refuse access for any further use is also covered.

If the data are not being collected directly from the person involved, but through a third party, the entity responsible for the data processing will inform the person whose data is being processed of the following:

- identity of the entity responsible for data processing;
- purpose of the data processing;
- circumstances and conditions that ensure a proper and careful processing of the personal data;
- information about the right to refuse and object to the data processing.

when data are being collected with the sole purpose of blocking or verifying transactions, 'de-duplication' of addresses with suppression lists (blacklists of people not wanting to be approached) or removal of addresses which are outside the target group. One could say that this is the processing of personal data with the goal of *not* approaching the customers, thus approaching them just to inform about the data that was acquired with the purpose of not approaching them, would be quite ludicrous.

The person who is registered has *the right to get access and inspect* their personal data registration. The request must be granted and answered in full within four weeks of the day of receipt. The fees that an organisation may charge for such requests are €0.23 per page with a maximum charge of €4.50. If such a request is made, the person will also be informed about the reasoning behind the use of certain personal data, e.g. how it affects the tariffs or promotional offerings a customer receives.[4]

If data are being processed with the goal of developing a relationship between the person and the responsible entity, with the purpose of soliciting means for commercial goals or charities, the person involved can always refuse registration.

CRM illustration

'If you would prefer not to receive this information, you may indicate this in writing. Please send your objection to XXX Inc. P.O. Box 1234 . . .'

The responsible entity should then proceed immediately to avoid all further data processing actions and activities. Once a year, the responsible entity should reiterate the right to refuse to the registered person, but this can be done in combination with promotional offers or through advertising campaigns. In case of non-conformity there is a right to claim damages incurred, as well as the right to pursue the matter under the law.

The Personal Data Protection Act does not make a separate distinction for *special data,* such as religious, political or sexual preferences, health or ethnic background. There is still, however, a *need for explicit permission* to process such data. Silent or implied consent is not deemed acceptable; the person involved must actively agree to registration in writing or otherwise. The person involved must have been informed fully and clearly about the consequences of such registration. They must not be surprised by the use of this information in customer interaction or any other sense.

There is a *duty to report* any and all processing of personal data. The report made must contain the name of the responsible entity, the processor, the purposes of processing the data, a description of the data and the way in which it is handled, the receiving parties, the security policy and any use in an international context. Companies may be exempt from registration under the following conditions:

- repetitive and straightforward activities, such as the payroll or accounting procedures;
- when the data are only kept for a short period of time before deletion.

Exemption from registration is only an exemption from registration with the relevant authorities. The other terms and conditions, rights and duties of the Personal Data Protection Act are upheld. The administrative fine for not registering when registration was due differs from one EU member state to the next. Criminal law may also be applied and lead to financial sanctions or even imprisonment.

---

[4]A person as such can ask to see the cross-sell or retention models an organisation makes use of.

Communication laws and rulings

The law and appropriate rulings in terms of communication channels is rapidly expanding. When taking this into account, we must focus especially on the breadth of application: which channels are specifically concerned? We must prevent more communication options being closed down than strictly necessary. Before one really notices, the ability to reach customers is completely destroyed.

In general terms, it is easiest to describe the permission rulings as to communication channels by the words opt-out and opt-in. Opt-out gives the person involved the right to refuse to having been contacted through a certain channel (post-fact), while opt-in requires permission first. The following situation holds for consumer markets:

The right of objection and the various channels of communication

- Addressed e-mail   opt-out
- Telephone (voice)   opt-out
- Fax   opt-in
- Automatic telephone calls without human intervention   opt-in
- Unaddressed e-mail   opt-out
- E-mail: customers   mostly opt-in

opt-out = right to block by data subject themselves
opt-in = prior permission needed from data subject to send messages

---

Electronic messages are messages that can be stored in computer networks or on peripheral devices. It is a category comprising e-mail, SMS and MMS. The main rule is that prior consent (opt-in) is always needed in order to use digital contract data. An exception to that rule is when electronic contact details were acquired during the sales process. The use of such data is allowed to promote similar products and services from the same organisation, as long as every communication points out the right to refuse. Every message should include the true identity of the sending party, including an address and phone number to allow customers to execute their right to refuse.

The relevant law in business-to-business markets is increasingly geared towards the consumer law. Prior to sending e-mails and faxes, consent is also required.

People not interested in further offers through the telephone or regular direct mail gave the option to register with a central database. This database should be consulted at any time by the sender of information. Failure to comply with the centralised registration preference can incur significant fines in several EU countries.

5.6   Information policy

In today's information society, the possibilities for collecting, recording, processing, distributing and utilising data continue to increase. It is becoming important for companies to formulate a vision on these topics in which consumers, the competition, legislation, the

value of data as a resource, morality and the possibilities offered by IT are all taken into consideration. According to Godin (1998), translating this vision into a marketing concept leads to the formulation of 'permission marketing'. A central theme in permission marketing is the asking of permission from the consumer: permission to ask them to focus on a commercial message and to disclose more about themselves so that the supplier can customise their offering (Godin, 1998). Although the name emphasises a topic that merits a great deal of attention within marketing, it would be an exaggeration to refer to this as a new form of marketing. Within marketing, which focuses on the exchange of resources, information is actually recognised as one of the potential resources for exchange. According to the existing marketing concept, a supplier must exchange information with customers on a voluntary basis and during these exchange processes, must strive for customer satisfaction and the perpetuation and development of the relationship. The fact is that the two-sided exchange of information is, in many cases, a subject which receives insufficient attention within (relationship) marketing policy which focuses primarily on the exchange of goods and services for money. Information ends up in a 'no-man's land' where there is little if any protection. As a result, data are not always obtained through voluntary exchange; it almost seems as if they are stolen and used without permission. These are methods which have no place in the existing marketing concept.

The recording of data on the quality of the customer–supplier relationship and the stage in which it is located is a point of particular interest for database managers. Commitment and trust, which grow as more personal and less concrete resources are exchanged (see Chapter 1), are abstract concepts, the measurement of which requires a great deal of work. More questions will have to be asked of customers in order to be able to make a 'rough' estimate. Customers could perceive this measurement as a nuisance. At the same time, many costs will have to be incurred in order to be able to gather the data. As people come to realise that measurements must be repeated on a regular basis in order to be able to keep the information up to date, they will become increasingly aware of the cost aspect.

The challenge for database managers consists in devising a way to gather regular, reliable information on the quality of the customer–supplier relationship at a relatively low cost and in an accessible manner. A model that is capable of translating currently available behavioural data that comes in on a frequent basis into measures of commitment and trust on the part of the customer would be an excellent solution.

5.7 Conclusion

Customer data which are developed into useable customer information constitutes one of the most important building blocks of CRM. Without customer knowledge, the relationship policy will lack substance, customisation of the offering will be difficult and focused communication based on customer profiles impossible. Investments in this type of data are usually a lot higher than management anticipates. Increasing the ability to gain insight into these investments and the consequences of a lack of data quality are effective for making management aware of the scope and relevance of data quality. Making the business case for the importance of data quality is probably better served by this type of argument than one which sings the praises of the future profits to be earned from data quality.

As a first point, developing customer information requires a professional organisation. Database management is not an activity which can be done on the side. Nor is it a function which is the exclusive preserve of specialists in a cost centre. In order to guarantee that marketers and those working in the front office will act upon the customer information which has been made available, it is recommended that customer intelligence be organised using an integrated team. With the support of professional staff, these teams can further enrich the customer information and utilise it profitably in decision making and marketing operations. It is possible within a learning organisation to work on the construction of the desired customer profile and matching marketing policy. Various information sources can be combined in order to complete this picture.

Furthermore, the utilisation of data requires a well-devised privacy policy. Customers will have to consent to the supplier getting to know them; they will have to see the benefit of this as well. *If they cannot see the advantage in this, then the value of this extremely important business asset will shrink rapidly.*

CASE STUDY

Customer knowledge at Center Parcs: a life-long holiday!

Introduction

Center Parcs is a holiday resort with locations in several European countries, for example the UK, Germany, France and the Netherlands. Customer relationship management is one of its successes. The secret being: 'it is not about the value the customer represents to us but about the value he or she wants'.

Richard Verhoeff, director of e-commerce at Center Parcs:

None of our customers is the same. The market and the customer do not exist for us. All that our guests have in common is the money and the time they spend with us. It is our challenge to get to know them better . . . It was the objective of our yield management system to optimise cottage rental, but nowadays we also want to actively offer services at different contact moments. Experience tells us that guests who participate in more activities are more likely to return. But before you can do this, you will have to answer questions such as: Who are our guests? When do they come? What do they want? In other words: we need customer profiles. Of course, segmentation is nothing new. In most cases customer groups are distinct and differ in the value they represent for the organisation (customer value). Customer relationship management then simply means retaining the good customers and stimulating them to increase their expenditure, while in the meantime the bad customers can leave.

Profiling customers

BPK Acxiom, a database and CRM consulting firm, approached it from a different perspective and began by analysing the emotional and functional values (somewhere to sleep; a roof over your head etc.) of a stay at Center Parcs. These values change with the life-cycle of a customer. He comes as a little child with his parents, when he is older he brings his girlfriend, and again later his family. Each of these roles asks for a different approach. Also, the value of the attractions differs for each customer, depending on his life-cycle, the time of his stay and the people that accompany him. Verhoeff: 'The swimming pool on a Saturday morning serves a completely different function from that on a Sunday afternoon, when there are a lot of small children around.'

Case study (*continued*)

To clarify this, BPK Acxiom developed life scenarios. Peter Severens, director at BPK Acxiom: 'We write life stories. What are the motives that drive people? Where do they come from? What are the events in their life and in specific situations? And what goods and services are consumed during these events? We map people's life-cycles and store them in the database.' The scenarios have been tested and refined in panel research together with a market research agency, named Signicom. It resulted in the definition of a number of customer groups and a customer-value pyramid per customer group. The value pyramid contains suggestions for product development and communication. The tone-of-voice, the actual proposition and the sales arguments match the values and preferences of the segment.

CRM software

CRM software plays an important role during the implementation of this customer group project. Center Parcs uses the forecasting software developed by DataDistilleries (now owned by SPSS) in direct and telemarketing processes. People who seem most likely to book during a specific period are selected from the database. However, sales staff also benefit from the software. Marcel Holsheimer, founder of DataDistilleries: 'Our software helps to predict the interests of a person during a contact moment.' Specific phone scripts and offerings can be formulated. Verhoeff: 'Some customer groups appreciate it if you give them a discount right from the start, others first ask for an explanation of your products and services and only let you know at the end if a discount is required.' Although the customer groups and formats help, one should never forget that it remains people's business.

In predicting what will interest Center Parcs' customers, DataDistilleries benefit from an enormous database with customer data that have been collected over the years. As early as 1984, Center Parcs started to store relationship and transaction data. However, through the years the organisation has been reactive in its use of these data. Erna ter Weele from BPK Acxiom: 'Currently, changes are focusing on improving customer insight and exploiting this information in actions.' Since DataDistilleries' software is user friendly, marketers no longer have to rely on IT specialists and can act faster. Verhoeff: 'Time to market is very important. If you notice the occupancy rate of your park is not optimal for a particular weekend, you only have a few days to do something about it.'

Results

Although Center Parcs is pleased with the results to date, Verhoeff is convinced the system has greater potential. 'An additional positive result of €3 million is a beginning. We have 3.2 million customers a year and if they spend an additional 2 per cent, revenue will increase by several tens of millions. By making more active use of the call centre in outbound actions, by stimulating cross-selling in the call centre, via the internet and during contact moments in the park itself, revenues have to grow.'

Questions

1 Consider the way Center Parcs and its consulting and research firms profile its customers. Apply the method, described by Peter Severens, to yourself or someone who has visited a holiday park in the past. What kind of customer profile can you construct?

2 Outline two advantages and two disadvantages of applying this customer profiling approach.

3 In what ways can Center Parcs differentiate its marketing for different customer groups?

Source: Theo Loth (2003) Een leven lang er tussen uit, *Adformatie,* March, **11,** 13, 36–7.