ensure that an optimal level of funding is made available and appropriately deployed.

Leadership is needed to prioritize the CRM programme

Leadership will help to prioritize the CRM project. It is not uncommon for companies to be involved in a number of large-scale projects simultaneously, as well as running the everyday business. Will CRM take priority over an acquisitions project, or a corporate university project? Prioritizing major projects such as these is a high-level decision.

Leadership provides oversight

As we have seen, CRM projects can last for a considerable length of time, and involve a number of component projects, such as a data quality project, market segmentation project and sales automation project. These projects need to be scheduled, delivered and integrated to deliver the desired CRM benefits. High-level ownership or sponsorship of the CRM project gives an overview of the progress of the overall project and the timeliness and contribution of the components.

Leadership breaks down the functional silo walls

Leadership is needed at a high level because CRM projects are cross-functional. They may involve the full complement of IT, marketing, sales, service, operations and finance departments. Many projects are initiated in marketing or sales departments. Then IT becomes involved because of the automation of processes within these departments. The success of CRM projects is intimately connected to the company's change management expertise. Customer relationship management may require far-reaching changes to the company's culture, processes, resources, organizational structure, technology, objectives and measurements, and its people's skill base. A multidisciplinary team should be better placed to identify barriers to change, and impediments to successful implementation.

Whilst establishing a cross-functional implementation team is regarded as essential to successful CRM projects, high-level ownership can ensure that a strategic organization-wide overview is given to the project.[1] It has been suggested that 'getting the support of a top-level sponsor [for CRM] – preferably at the very top of the enterprise – will help to overcome many of the resistances that might be encountered. Either the vision of the business leader will persuade others to adopt the project or it will act as a subtle threat that unless they adopt it, they will not find life in the business comfortable'.[1] Despite this, it is estimated that only one in three companies have a board-level executive responsible for CRM.

The Royal Bank of Canada, winner of the large corporates section of the first international CRM excellence awards, certainly saw the merit of appointing a senior sponsor. Having decided to commit to CRM, they appointed a high-level vice president to champion the change process. They saw this as being an essential step to successful roll-out and implementation of the strategy.

In general, leadership research provides 'consistent and compelling evidence that individual leaders do make a difference' to organizational

performance.[2] Research in a field that has some similarities with CRM illustrates this specifically. The Baldrige award is a business excellence programme that links business performance enablers such as leadership, process management, people management and strategic management to business performance outcomes such as customer satisfaction and retention, employee satisfaction and return on investment. A detailed statistical study of linkages between the Baldrige criteria concluded overall that leadership drives the system that leads to organizational performance.[3] In other words, the impact of leadership is indirect, ensuring that processes and people, strategy and information are managed appropriately, in turn leading to better customer outcomes and financial results. These words are equally appropriate to the significance of leadership to CRM performance.

Organizational culture

The idea of organizational culture has been around for many years. In everyday language, organizational culture is what is being described when someone answers the question 'what is it like working here?' More formally, organizational culture can be defined as:

> A pattern of shared values and beliefs that help individuals understand organizational functioning and thus provide them with the norms for behavior in the organization.[4]

Essentially, organizational culture is understood to comprise widely shared and strongly held values. These values are reflected in patterns of individual and interpersonal behaviour, including the behaviour of the business leaders, and expressed in the norms, symbols, rituals and formal systems of the organization.

There are various ways of classifying and measuring organizational culture. O'Reilly et al. identified seven dimensions of organizational culture using an instrument they developed, the Organizational Culture Profile (OCP): innovation, stability, respect for people, outcome orientation, detail orientation, team orientation, and aggressiveness.[5] The existence of these seven dimensions has been confirmed in several studies across a number of industries.[6] Several studies indicate that organizational culture affects performance.[7]

The presence of a customer-centric organizational culture makes the introduction of a CRM strategy much less threatening to the company's people. Many companies claim to be customer centric, but few are. A customer-centric firm will be resourced and organized to understand and satisfy customer requirements profitably. Typically, this will involve many attributes that are also characteristic of CRM implementations:

- identifying which customers to serve
- understanding customers' current and future requirements
- obtaining and sharing customer knowledge across the company
- measuring customer results: satisfaction, retention, future buying intention, referral behaviours (word-of-mouth), share of wallet

- designing products and services that meet customers' requirements better than competitors
- acquiring and deploying resources (information, materials, people, technology) that create the products and services that satisfy customers
- developing the strategies, processes and structure that enable the company to meet customer requirements.

Research suggests that a customer's experience of doing business with a company is influenced by a number of factors, including the company's products, services, processes, communications, reputation and people.

The behaviours of people at the interface with customers, in marketing, selling and service, can have a major impact on a customer's sense of satisfaction and value, and their future buying intentions. The model in Fig. 2.3 illustrates this phenomenon.[8] It shows that the behaviours of employees in customer-facing positions is linked to their experience in the workplace.

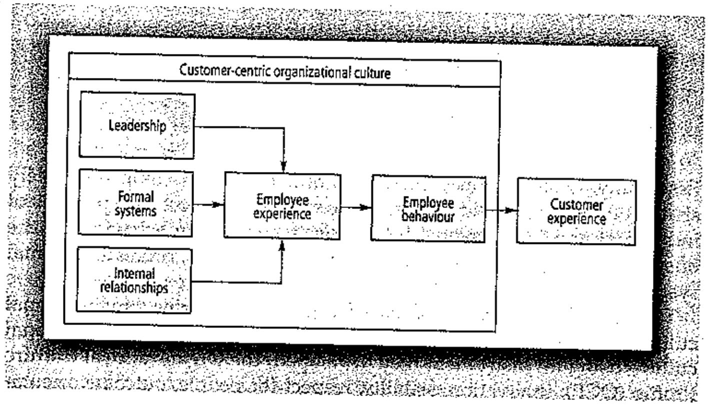

Figure 2.3 A model of customer-centric culture (© courtesy of Frost Rowley)

The model suggests that the degree to which an organizational culture is customer centric is expressed in leadership behaviours, formal systems and internal relationships. These, in turn, largely determine the experience of employees in the company (what is it like working here?), which in turn is reflected in their behaviour when interacting with customers.

In a customer-centric culture you would expect positive answers to the following questions about leadership, formal systems and internal relationships.

Leadership

- Is leadership determined to make a positive difference to customer experience?
- Does leadership provide a 'customer first' role model that employees want to follow?

- Does leadership act like it believes customers are important?
- Does leadership provide the resources necessary for customer contact people to deliver excellent service?

Formal systems

- Does the reward and recognition system acknowledge distinction in producing excellent customer experience?
- Does the company measure customer outcomes such as customer satisfaction and retention?
- Are new recruits inducted into the 'customer first' way of doing business?
- Are customers invited to take part in front-line staff appraisals?

Internal relationships

- Is customer information shared across work groups?
- Do colleagues from different functions get together to identify how to improve customer experience?
- Do we celebrate the success of colleagues in creating exceptional customer experience?

Data and information technology

The second major supporting condition for CRM implementations is data and information technology. IT is discussed in Chapter 3. Here, we want to examine the role of data in CRM.

Our definition of CRM stresses the importance of high-quality customer data. Acquiring, storing, enhancing, maintaining, distributing and using customer information are critical elements of CRM strategies. The data requirements of a CRM strategy are determined by the decisions made and the activities undertaken in the five main stages of the CRM value chain.

The task at the **customer portfolio analysis** (CPA) stage is to identify those customers that you want to serve in the future. These will be customers that are strategically significant, including those that will be profitable in the future. You can make one of two assumptions: the future will be largely the same as the past, or the future will vary significantly from the past. With the former assumption it may be possible to use historical data to estimate the future; under the latter assumption, new models will need to be devised which predict future purchasing behaviour.

Several specific activities are undertaken during CPA:

1 identification of existing and potential customers at the individual or segment level
2 tracing of historical costs and revenue to each of these segments/individuals. This tells you how profitable each customer (group) has been in the past
3 prediction of future costs of keeping and developing the value of existing customers
4 prediction of future costs of winning and keeping new customers
5 estimation of gross margin (or sales) from these customers in the future.

These activities require significant amounts of data about markets, customers, competitors and internal processes, for example:

- How do we, and our competitors, segment the market?
- How else can the market be segmented?
- Which segments are growing or declining?
- What are our costs of customer acquisition (marketing, advertising, selling, sales promotion, database costs, credit scoring)?
- What are our costs-to-serve customers (selling, service, complaint management)?
- What are our sales volumes to each segment/customer?
- What is our share of customer wallet?
- What are our gross margins on these sales?
- Will gross margins be different in the future?
- What is each customer's (or segment's) intention to buy in the future?
- What share of customer spending are we likely to lose to competitors in the future?

At the **customer intimacy** stage of the CRM value chain, the task is to obtain data about the customers you have chosen to serve that will help you to build closer and longer relationships with them. This will include, but not be limited to:

- Who plays a role in the buying processes? (Who identifies the need? Who is the specifier? Who decides? Who buys? Who uses the product? Does anybody act as gatekeeper, monitoring the volume and sources of information that reach the deciders?)
- What are the contact details on the customer side (names, addresses, phones, fax, e-mail)?
- Why do they buy from us? (What is our share of wallet? Is this declining or growing? Which other competitors are in their choice set?[ii] What do customers perceive to be our strengths and weaknesses?)
- What is the customer's buying history?
- What are the preferred communication channels for selling and service (face-to-face, phone, web self-service)?
- What parts of our value proposition are most and least valued by the customer?
- How satisfied is the customer?
- How willing is the customer to refer others to us?
- How does the customer use our product/service?
- What are the customer's future plans? (What influence will those plans have on sales volumes and customer profitability?)

[ii] Choice set refers to the alternative suppliers that a customer considers when making a purchase. Most customers buy on a portfolio basis, that is, they have several alternative suppliers who are more or less equal members of the choice set.

- What are the preferred channels for marketing communication (mail, e-mail, fax, phone, SMS)? In which contexts are each of these preferred?
- What are the preferred forms of address (familiar, formal)?

In **network development**, the task is to identify, brief and co-ordinate the business's network, including suppliers, partners and employees, to ensure that they contribute to the value creation and delivery process. Each of these network members is both a generator and a user of information for CRM.

Suppliers provide inputs for the creation of the value proposition. Suppliers can provide data such as: current and future costs, quality conformance reports, future product availability and logistics performance reports. Suppliers may also be a good source of ideas for new or improved products and cost reduction proposals for the future.

If suppliers are to understand their role in delivering value to their customer's customers they might find it useful to know who is the customer's customer, what that customer expects, what quality standards that customer wants, how competitors are trying to meet that customer's needs, and how that customer's needs might change in the future.

Partners are companies such as joint venture collaborators, franchisees, licensees and alliance partners that contribute towards the creation of value of the CRM implementer's customers. For example, Dunkin' Donuts' franchisees contribute importantly to the creation of value for the parent company's customers. They have access to the end consumer and can provide head office with information on changing customer profiles, customer expectations, or sources of customer satisfaction and dissatisfaction. They might also be able to identify untapped opportunities in underdeveloped franchise areas, or better ways to present the merchandise at point-of-sale. For the franchisees to do their jobs better, the parent can provide information on target customer profiles, batch manufacturing processes, customer service standards and product quality standards.

Employees, particularly those who interact with customers at the various touchpoints (e.g. contact centre, sales presentation, service delivery), are in an excellent position to obtain and feed customer information back to the CRM strategists. They can provide insight into how customer needs and expectations are changing, the sources of satisfaction and dissatisfaction and competitors' offerings. Where employees are in a position to have a major influence on customer perceptions, expectations and behaviours, they need to have access to a significant volume of customer information, including what was detailed earlier under customer intimacy. This information will enable them to tailor their service performance and selling efforts to the particular customer or segment requirements.

Customer data are needed for successful **development of value proposition(s)** for the selected customers. The value proposition is the offer that the company assembles, together with its network partners, to win and keep the selected customers. Most companies will design a number of related value propositions for different customer segments. The composition of the proposition might be customized at segment or individual level. Dell Computers and Levi Strauss both offer individually tailored value propositions, computers and jeans, respectively. Information about the customer's needs, preferences and expectations are important contributors to the creation and delivery of the right offer. The customer's buying history might provide useful insight into how the customer might buy in the future. Historical data on complaints, service calls and product defects allow the value proposition to be continuously improved.

Managing the customer lifecycle involves a set of customer management tasks including identifying prospective customers, recruiting those customers, selling them their first product, managing their migration up the value ladder, developing and implementing retention plans and winning back valued customers should they defect, taking some or all of their business to competitors.

Customer data enable these tasks to be performed more intelligently. For example, customer data could tell you how the costs of customer acquisition vary across channels, and how the value of customers varies across channels. This is extremely useful information for developing an intelligent customer acquisition strategy. Similarly, customer win-back strategies can be focused where they reap the greatest reward. Two important pieces of customer information can be used to guide win-back efforts: What is a customer's value in the future? What is the cost of winning back that customer? When migrating customers up the value ladder, companies can use segmentation and profiling data to identify cross-selling and up-selling opportunities. For example, a home shopping company may learn that customers who bought baby clothes in January are buyers of toddler's clothing 18 months later. This will guide the target, timing and content of the offer.

Sales and service efforts can be prioritized in real time, based on customer data. Sales priorities can be driven by the probability of closing the sale, the value of the sale, the relative importance of the product (is it under incentives this period?) and customer ranking. Service priorities can be determined by historical value, potential future value, current service level agreement and problem severity.

People

People are the third supporting condition for successful CRM implementation. Many commentators believe that people are the most important element in the performance of a CRM strategy.[1] Why is this so?

- People develop the CRM strategy
- People select the IT solution
- People implement and use the IT solution
- People co-ordinate with each other across functions to make CRM work
- People create and maintain the customer database
- People design the marketing, selling and service processes
- People may need to change established work practices
- People contribute importantly to customer satisfaction and retention when they interact with customers.

If people don't want CRM to work, it won't. According to one authority, it is essential for companies to 'listen to the people who will be affected [by CRM]' in order to win their support.[1] A sales force automation project needs to start with an understanding of existing selling practices to identify what is done, what works well and what does not. The input of salespeople to this assessment and redesign of the selling process can be critical (see Case 2.1). Without this, a new sales methodology may not be applied universally or consistently across the sales team, making it useless for sales forecasting and sales management.

Given that there are three forms of CRM, strategic, operational and analytical, it is important for CRM champions to be located at different levels in the organization. Strategic CRM needs championing at CEO level. Operational CRM needs champions at senior functional management level; for example, chief marketing officer and director of sales. Analytical CRM needs champions at lower levels yet. In general, CRM champions tend to reside in marketing, sales or service functions, since this is where most customer relationship matters are addressed. If IT people champion CRM, there is a danger that it will be seen as an IT implementation exclusively. The potential business benefits of CRM may not be achieved.

People's skills, knowledge and attitudes required for successful CRM performance may need review and upgrading. These will vary according to the level of CRM implementation: strategic, operational or analytical. Many analytical CRM projects involve experimenting with different offers to subsets of customers. The knowledge and skills required include how to segment customers, design experiments and interpret experimental data using statistical procedures. People may need to be trained in these and other competencies.

Processes

Processes are the fourth and final supporting condition for CRM delivery. Processes are the way in which things are done by the company. From a

Case 2.1

Internal marketing of the CRM strategy at Crown Relocations

Crown Relocations, a leading global relocation organization, found that implementing a CRM strategy required a great deal of participation, understanding and reinforcement among employees.

Before the strategy was finalized, the organization extensively tested the new sales force automation system among employees involved in sales and customer service, seeking their opinions about the features they felt should be included and how it would be used.

After the trial period, the system was successfully employed in many of Crown's markets and has been widely adopted by sales staff, where the new CRM system has been credited with lifting the sales performance of sales representatives by over 80%. The company believes this is largely attributable to the initial involvement they had in designing the system.

CRM perspective, processes need to be designed and operated so that they contribute to the creation of value, or at least do not damage the value being created, for customers. This implies both efficiency (low cost) and effectiveness (delivers the desired outcomes).

Processes can be divided into several categories: vertical and horizontal; front-office and back-office; primary and secondary.

Vertical processes are those that are located entirely within a business function. For example, the customer acquisition process may reside totally within the marketing department. **Horizontal** processes are cross-functional. The new product development process may involve sales, marketing, finance, and research and development groups.

Front-office (or front-stage) processes are those that customers encounter. The complaints management process is an example. **Back-office** (or back-stage) processes are hidden from customers; for example, the procurement process. Many processes straddle both front and back offices: the order-fulfilment process is an example. The order-taking part of that process sits in the front office. The production scheduling part is back office.

A distinction can be made between primary and secondary processes. **Primary** processes have major cost or revenue implications for companies. The logistics process in courier organizations, from picking up a package through moving the package to delivering the package, constitutes about 90 per cent of the cost base of the business. The customer may have a different perspective on what is important. Customers typically do not care about back-office processes. They care about the processes they touch. In the insurance industry these are the claims process, the policy renewal process and the new policy purchase process. In the courier business it is the pick, delivery and tracking process. **Secondary** processes have minor cost or revenue implications.

Strategic CRM aims to build an organization that is designed to create and deliver customer value consistently better than competitors. Designing processes that create value for customers is clearly part of the task. The company 3M's mission is 'to solve unsolved problems innovatively'. It does this in part through new product development processes that are designed to identify good ideas and bring them to the market quickly.[9] For 3M, the innovation process is a primary process that enables the company to differentiate from competitors.

The main role of operational CRM is the automation of the company's selling, marketing and service processes. Analytical CRM employs a number of processes, including the customer profiling process, opportunity management process and campaign management process. Figure 2.4 shows how First Direct, the telephone and Internet bank, has mapped its campaign management process. It shows that the propensity of a customer to open a high-interest savings account is determined by a scoring process, based on demographic and transactional data. The process is designed to enable customers to open an account either on the phone or by mail.

It is important to identify the key processes from a CRM perspective and to design these processes so that they contribute to the CRM objectives. These objectives may include customer satisfaction, customer retention, reduced costs-to-serve, product ownership per customer, marketing campaign effectiveness and sales-force efficiency.

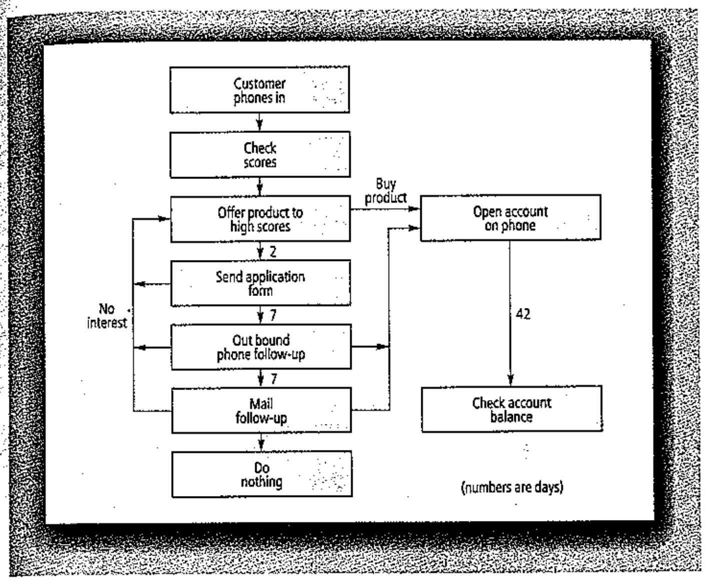

Figure 2.4 Campaign management process for high-interest savings account

Flowcharting, which is also known as blueprinting and process mapping, is a tool that can be used to make processes visible. The flowchart sets out the steps involved in performing the process. It may also identify the people (or roles) that contribute to the process, and the standards by which the process is measured, such as time, accuracy or cost. Processes always have customers. These may be internal customers (colleagues at work) who co-operate in the performance of the process, or internal or external customers who receive the final output of the process. Figure 2.5 shows the order-fulfilment process for an exporter. The flowchart shows that the process is cross-functional, and is completed by a number of internal supplier–customer relationships in series.

Software such as Visio and ABC Flowcharter is readily available to help to generate flowcharts. Flowcharts can be used to identify fail points where a process frequently breaks down, redundancies and duplications. They can also be used for induction and training of new people, and for illustrating internal customer–supplier relationships.

From a CRM perspective, process design raises a number of questions:

- What are the important processes from a CRM point of view?
- How is the present process designed?
- What does it contribute to the achievement of CRM objectives?
- What do its customers, internal and/or external, receive from and think about the process?

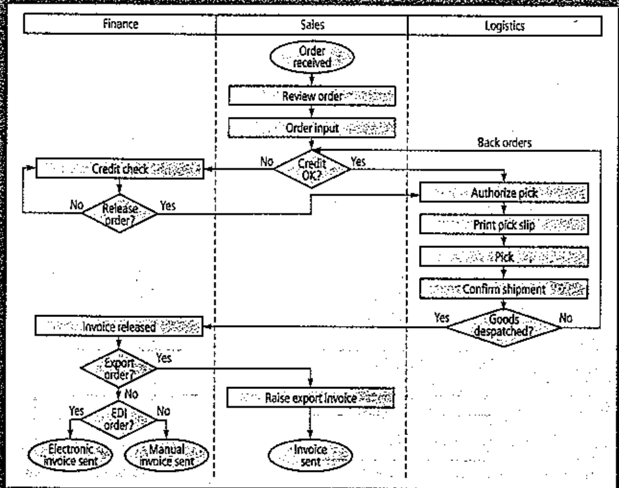

Figure 2.5 Order fulfilment: cross-functional process flowchart

- What process performance measures are in place (cost, time, accuracy, satisfaction)?
- Can the process and its outcomes be improved?

Processes can be rated according to the degree to which they can be improved. It has been suggested, for example, that processes be rated according to the criteria in Fig. 2.6.

	Process rating
Best practice (superiority)	The process is substantially defect-free and contributes to CRM performance. Process is superior to comparable competitors and other benchmarks
Parity	A good process that largely contributes to CRM performance
Stability	An average process that meets expectations with no major problems but that has major opportunities for improvement
Recoverability	The process has identified weaknesses that are being addressed
Criticality	An ineffective and/or inefficient process in need of immediate remedial attention

Figure 2.6 Evaluating processes[10]

It is not just front-office processes that have an impact on CRM performance; the same is true of back-office processes. If procurement people do not know the quality requirements of the value proposition demanded by customers, they may source inputs of too high or too low quality. Similarly, if operations people are not aware of the quality expectations of customers, they may manufacture to tolerances that are unacceptable. If design people do not understand the features required by customers they may overengineer products with features that are of no value to the customer. It is also possible to underengineer products for the same reasons of inadequate understanding of customer requirements.

It is important to acknowledge that CRM can have an impact across the entire enterprise. Consequently, processes may need to be evaluated and remapped in and across all functions of the business.

Summary

In this chapter you have read about the CRM value chain, the model that underpins this book. The model consists of five primary stages and four supporting conditions. The primary stages are customer portfolio analysis, customer intimacy, network development, value proposition development and managing the customer lifecycle. These will be discussed further in upcoming chapters. The supporting conditions that are discussed in this chapter are leadership and culture, data and IT, people, and processes. Given the right sort of support from these enabling conditions, the CRM strategy can function more effectively.

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Chapter objectives

By the end of the chapter, you will understand:

1 the meaning of the terms 'customer lifecycle' and 'new customer'
2 what businesses can do to acquire new customers, including
3 which potential customers to target
4 how to communicate with them
5 what to offer them.

Introduction

This chapter and the next two chapters introduce the idea of a customer lifecycle and its management. Managing the customer lifecycle is the fifth and final primary stage of the customer relationship management (CRM) value chain (Fig. 8.1). It is at this phase of the CRM value chain that we consider the critical issues of process and structure for CRM implementation.

The core CRM processes are the customer acquisition, customer retention and customer development processes, which together make up the customer lifecycle. How can companies identify and acquire new customers, grow their value to the business and retain them for the long term? What are the key metrics or key performance indicators (KPIs) that can be used to measure a company's process performance? The issue of structure is one of organizational design. What form of organizational design enables a company to achieve its CRM objectives? The processes of customer development and retention are examined in Chapter 9, and structure is the subject of Chapter 10.

In this chapter you will find out about the important issue of customer acquisition, the first concern as you try to manage the customer lifecycle. New customers have to be acquired to build companies. Even in well-managed companies there can be a significant level of customer attrition. These lost customers need to be replaced. We look at several important matters for CRM practitioners: which potential new customers to target, how to approach them and what to offer them.

Customer lifecycles are presented in different ways by different authorities, but basically they all attempt to do the same thing. They

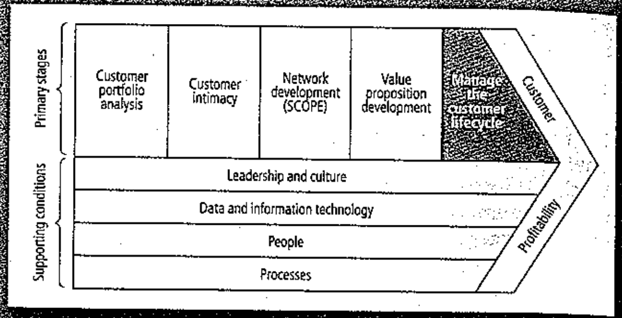

Figure 8.1
CRM value chain

attempt to depict the development of a customer relationship over time. Ford, for example, traces business-to-business (B2B) relationships through four main stages: pre-relationship, exploratory, developing and stable stages.[1] As relationships move along this trajectory, their character changes. The uncertainties that each party had about the other begin to disappear as they mutually grow in knowledge and understanding. One party, or perhaps both parties, begins to make investments in the other; they show commitment by adapting to each other. If there is no evidence of commitment, the relationship is unlikely to progress beyond the exploratory stage. If commitment is demonstrated, they will perhaps grow to trust each other and the relationship heads towards stability. This chapter focuses on the earliest stages of a customer relationship, when there is progress up the value ladder from suspect to prospect to first-time customer status.

Because we are taking a management view of customer relationships, the customer lifecycle has been collapsed into three major management activities:

- acquiring new customers
- retaining existing customers
- developing customer value.

The first task in managing the customer lifecycle is to acquire customers. Customer retention is a pointless exercise if there are no customers to retain. Customer acquisition is always the most important goal during new product launches and with new business start-ups. For small business with ambitions to grow, customer acquisition is often as important as customer retention. A one-customer company, such as BICC, which supplies copper cable to a single customer, BT, can double its customer base by acquiring one more customer. Conversely, the loss of that single customer could spell bankruptcy.

Even with well-developed and implemented customer retention plans, customers still need replacing, sometimes at a rate of 25 per cent or more a year. In a business-to-consumer (B2C) context, customers may shift out of your targeted demographic as they age and progress through the family lifecycle; their personal circumstances may change and they no longer need and find value in your product; they may even die. In a B2B context, you may lose corporate customers because they have been acquired by another company with firmly established buying practices and supplier preferences; they may have stopped producing the goods and services for which your company provided input; they may have ceased trading. Customer loss to these uncontrollable causes indicates that customer acquisition will always be needed to replace natural attrition.

Several important questions have to be answered when a company puts together a customer acquisition plan. These questions concern targets, channels and offers:

- Which prospects (potential new customers) will be targeted?
- How will these prospects be approached?
- What offer will be made?

These issues need to be carefully considered and programmed into a properly resourced customer acquisition plan. Most marketing plans do not distinguish between customer acquisition and customer retention. They are not separately funded or plotted strategies. It is recommended that companies think about these as separate, but related issues, and develop appropriate strategies.

What is a new customer?

A customer can be new in one of two senses:

- new to a product category
- new to the company.

New-to-category

New-to-category customers are customers who have either identified a new need or have found a new category of solution for an existing need. Consider the B2C context. When a couple have their first child, they have a completely new set of needs connected to the growth and nurturing of their child. This includes baby clothes, food and toys. As the child grows, the parents are faced with additional new-to-category decisions, such as preschool and elementary education. Sometimes, customers also become new-to-category because they find a new category to replace an existing solution. Mobile phones have now significantly replaced card- or cash-operated pay-phones in many countries. More environmentally friendly detergents and nappies are growing their share of market, as customers switch from current solutions.

Sometimes, customers beat marketers to the punch, by adopting established products for new uses. Marketers then catch on and begin to promote that use. Arm and Hammer baking soda was used by customers to deodorize fridges and rubbish bins, and as a mild abrasive for whitening teeth. The manufacturer Church and Dwight responded to this revelation and began to promote a variety of different applications. It is now an ingredient in toothpaste. Their website www.armhammer.com provides visitors with many other tips for baking soda applications. Auto manufacturers noticed that many utility vehicles were being bought not by tradespeople but as fun vehicles for weekend use. They began promoting this use, while at the same time trying to innovate in product design to meet the requirements of that market segment. The result has been the emergence of a completely new market segment: the market for sports utility vehicles. Several websites serve this market, www.suv.com, for example.

The same distinction between new needs and new solutions exists in the B2B marketplace. Customers can be new-to-category if they begin an activity that requires resources that are new to the business. For example, when McDonald's entered the coffee shop market, they needed to develop a new set of supplier relationships. New-to-category customers may also be customers who find a new solution for an existing problem. For example, some clothing manufacturers now use computer-operated sewing machines to perform tasks that were previously performed by skilled labour and traditional sewing machines.

New-to-category customers are sometimes expensive to recruit; sometimes they are not. For example, when children leave home for university, banks compete vigorously for their patronage. They advertise heavily in the mass media, communicate direct-to-student, and offer free gifts and low- or zero-cost banking for the duration of the studentship. In contrast, supermarket retailers incur no direct costs in attracting these same students to their local stores.

New-to-company

The second category of new customers is customers that are new to the company. New-to-company customers are won from competitors. They may switch to your company because they feel you offer a better solution or because they value variety. In general, new-to-company customers are the only option for growing customer numbers in mature markets where new-to-category customers are not entering the market. In developed economies, new players in grocery retail can only succeed by winning customers from established operators. They would not expect to convert those customers completely but to win a share of their spend by offering better value in one or more of important categories. Once the customer is in-store, the retailer will use merchandising techniques such as point-of-sale signs and displays to increase spending.

New-to-company customers can be very expensive to acquire, particularly if they are strongly committed to their current supplier. Commitment is reflected in a strong positive attitude to, or high levels of investment in, the current supplier. These both represent high switching costs. A powerful commitment to a current supplier can be difficult, and often is too expensive, to break. High potential value customers are not always the most attractive prospects because of this commitment and investment. A lower value customer with a weaker commitment to the current supplier may be a better prospect.

Portfolio purchasing

New customers can be difficult to identify in markets where customers exhibit portfolio purchasing. Customers buy on a portfolio basis when they buy from a choice set of several more or less equivalent alternatives. A customer who has not bought from one of the portfolio suppliers for a matter of months or even years may still regard the unchosen supplier as part of the portfolio. The supplier, however, may have a business rule that says: 'If a customer has not bought for 3 months, mail out a special offer.' In the UK, many grocery customers shop at both Tesco and Sainsbury's. These retailers do not simply compete to acquire and retain customers. Instead, they compete for a larger share of the customer's spending.

Retention and acquisition of customers make more sense as strategic objectives where portfolio purchasing is not a characteristic behaviour.

Strategic switching

You may encounter evidence of strategic switching by customers. These are customers who shift their allegiances from one supplier to another in pursuit of a better deal. Banks know that their promotional pricing stimulates hot money. This is money that is moved from account to account across the banking industry in search of the best rate of interest. Sometimes the money may only be in an account overnight.

The telecoms company MCI discovered that about 70 per cent of customers newly acquired from competitors stayed for 4 months or less. These customers had been acquired when MCI mailed a cheque valued at \$25, \$75 or more to competitors' customers. When the cheque was banked, this automatically triggered the transfer of service to MCI. A few months later these customers again switched suppliers when another deal was offered and the cheque had already been cashed. MCI fixed the problem by adjusting the promotion. Instead of mailing an immediately cashable cheque, its promotion was relaunched as a 'staged rebate' promotion. The accounts of new customers who stayed for 3, 9 and 13 months were credited with sums equivalent to the value of the cheque that would previously have been sent.[2]

Sometimes, a customer may have been regained a second or further time as a new customer. For example, if the couple mentioned previously were to have a second child after 4 years, they would most likely have been removed from the mother-and-baby databases. A new record would have to be created. The customer would need to be targeted afresh. In portfolio markets, a customer who has not purchased in quarter 1 may be treated as a new customer for promotional purposes in quarter 2, as the company attempts to reactivate the customer.

Customer value estimates

Companies must choose which of several potential customers or segments to target for acquisition. The final choice will depend on a number of considerations.

- What is the estimated value of the customer? This depends on the margins earned from the customer's purchases over a given period.
- If that customer switches, what proportion of that spending will your company earn?
- What is the probability that the customer will switch from current suppliers?

Imagine a competitor's customer who will spend \$5000, \$6000, \$7000 and \$8000 with that supplier over the next 4 years at gross margins of 40 per cent. Without discounting those future margins, the customer is worth \$10 400 (\$2000 + \$2400 + \$2800 + \$3200). Let's assume that your intelligence, based on customer satisfaction and loyalty scores, suggests that you have a 40 per cent chance of converting the customer and that, once converted, you will win a 50 per cent share of the customer's available spending in that category.

The value of this customer can now be computed as follows: gross margins, multiplied by share of the customer's spending, multiplied by the probability of winning the customer's business. Using the numbers above, this customer is worth \$10 400 × 0.50 × 0.40 or \$2080. The question now becomes: can you recruit this customer and maintain a relationship over the next 4 years for less than \$2080? If you can, then the customer will make a net contribution to your business. This simple algorithm allows you to compare different customer acquisition opportunities. Other things being equal, a customer that shows a higher potential contribution is a better prospect. The approach can be adjusted customer by customer and can take account of a number of additional factors, such as discounting future margins, producing differently costed approaches to customer acquisition, re-estimating future margins to take account of cross-selling opportunities and estimating the annualized costs of customer retention.

Hofmeyr has developed the Conversion Model™. This contains a battery of questions designed to assess whether a customer is likely to switch. His basic premise is that customers who are not committed are more likely to be available to switch to another provider. Commitment, in turn, is a function of satisfaction with the brand or offer, the attractiveness of alternatives, and involvement in the brand or offer. The Conversion Model allows customers to be segmented into four subsets according to the level of commitment: entrenched, average, shallow and convertible. Non-customers are also segmented according to commitment scores into four availability subsets: available, ambivalent, weakly unavailable and strongly unavailable. Hofmeyr claims that these scores can be used to guide both acquisition and retention strategies.[3]

A core principle of CRM is that customer knowledge is used to target acquisition efforts accurately. By contrast, poorly targeted acquisition efforts waste marketing budget and may alienate more prospects than they gain through irrelevant, inappropriate messaging.

Prospecting

The first major decision to be made for a customer acquisition plan is the identification of prospects. Prospecting is a mining term. In that context, it means searching an area thought likely to yield a valuable mineral deposit. In CRM, it means searching for opportunities that might convert into strategically significant customers.

Prospecting is an outcome of the segmenting and targeting process described in Chapter 4. Prospects are end-products of that process. Segmentation divides a heterogeneous market into homogeneous subsets, even down to the level of the unique customer. Targeting is the process of choosing which market segments, clusters or individuals, to approach with an offer. In Chapter 4, we identified several characteristics of the strategically significant customer. These are the attributes that companies would find most attractive in a prospect.

Business-to-business prospecting

In the B2B environment, it is very often the task of the salesperson to do the prospecting. The first step is to generate the leads. Leads are individuals or companies that might be worth approaching. The lead then needs to be qualified. The qualification process submits all leads to a series of questions, such as:

- Does the lead have a need for my company's products?
- Does the lead have the ability to pay?
- Is the lead authorized to buy?

If the answers are yes, yes, yes, the lead becomes a genuine prospect. Ability to pay covers both cash and credit. The ability to pay of prospective customers can be assessed by subscribing to credit-rating services such as Dun & Bradstreet and Standard & Poor's. Being a well-known name is no guarantee that a prospect is credit-worthy, as suppliers to Enron know. Authority to buy may be invested in a named individual, a decision-making unit composed of a group of employees, a group composed of internal employees and external advisor(s) or, in some rare cases, an external individual or group. Andersen Consulting (now Accenture) was appointed by Chrysler to act as systems integrator for a completely new robotics system. Proposals were put to a group of Andersen employees only, while Chrysler retained the power to veto any choice.

Automated lead qualification is possible in some CRM systems. Banks, for example, have rule-based algorithms for scoring the credit-worthiness of loan applicants. Models employ data such as income, tenure in job and marital status to determine risk. These models have become more

- Satisfied customers
  - Referrals from satisfied customers
- Networking
  - Personal contacts with well-connected and co-operative people
- Promotional activites
  - Exhibitions, seminars, trade shows and conferences
    - Delegate and attendee lists
  - Advertising response inquiries
  - Publicity
- Websites
- Lists and directories
  - SIC listings, telephone directories
- Canvassing
- Tele-marketing
- E-mail

Figure 8.2
Sources of business-to-business leads

sophisticated over time. Some years ago, the only question that home shopping companies would ask of customers to check their credit worthiness was 'do you have a telephone?'

Once leads have been qualified, CRM practitioners need to decide the best channels for initiating contact. A distinction can be made between direct-to-customer (DTC) channels such as salespeople, direct mail, and telemarketing and channels that are indirect, either because they use partners or other intermediaries or because they use bought time and space in media. The improved quality of databases has meant that direct channels allow access to specific named leads in target businesses.

Leads come from a variety of sources. In a B2B context this includes the sources identified in Fig. 8.2. Many companies are turning to satisfied customers who may be willing to generate personal referrals. The customer database should be designed to enable you to establish which customers are satisfied. These special customers can then be proactively approached for a referral. They may be prepared to write a letter or an e-mail of introduction, provide a testimonial or receive a call to verify the credentials of a salesperson.

Networking can be defined as:

> the process of establishing and maintaining business-related personal relationships.

A network may include members of a business association, friends from university or professional colleagues in other companies. In some countries it is essential to build and maintain personal networks. In China, for example, the practice of *guanxi* means that it is almost impossible to do business without some personal connections already in place.

Referral networks are common in professional services. Accountants, banks, lawyers, auditors, tax consultants and estate agents will join

together into a referral network in which they undertake to refer clients to other members of the network.

Promotional activities can also generate useful leads. Exhibitions, seminars, trade shows and conferences can be productive sources. Companies that pay to participate in these events may be able either to obtain privileged access to delegate and attendee lists, or to generate lists of their own, such as a list of visitors to their stand at a trade show.

In general, B2B marketers do little advertising, although this can generate leads. Many B2B companies think of marketing as a lead-generating activity, and sales as lead conversion activity. Most B2B advertising is placed in highly targeted specialist media such as trade magazines.

Publicity

An important activity for some B2B companies is publicity. Publicity is an outcome of public relations (PR) activity, and can be defined as:

> free editorial coverage of a story relevant to a company's interests.

Successful PR can generate publicity for your product or company in appropriate media. This coverage, unlike advertising, is unpaid. Although unpaid, publicity does create costs. Someone has to be paid to write the story and submit it to the media. Many magazines, trade papers and online communities are run on a shoestring. They employ very few staff and rely heavily on stories submitted by companies and their PR staff to generate editorial matter. Editors are looking for newsworthy items such as stories about product innovation, original customer applications or human-interest stories about inventors and entrepreneurs. Editorial staff will generally edit copy to eliminate deceptive or brazen claims.

Websites

Company websites can also be fruitful sources of new customers. Anyone with access to the Internet is a prospective customer. The Internet enables potential customers to search globally for products and suppliers. To be effective in new customer generation, websites must take into account the way in which prospects search for information. There are four main ways:[4]

- keying in a page's URL
- using search engines
- exploring directories, web catalogues or portals
- surfing.

A URL is a website address. URL stands for Uniform (or Universal) Resource Locator. By typing it into a web browser's address window, you move straight onto the website. Even if you did not know IBM's URL, you could reasonably guess that it is www.ibm.com. URLs can be saved as favourites once you are sure of the address.

Search engines provide an indexed guide to websites. Users searching for information type keywords into a web-based form. The engine then reports the number of hits, that is, webpages that feature the keyed word or words. Users can then click on a hyperlink to take them to the relevant pages. To ensure that your site is hit when a prospect is searching, you need to register with appropriate search engines. There are hundreds of search engines, but among the most well-known are Google, Infoseek, Netscape, Webcrawler, Alta Vista and Lycos. Sites such as www.searchenginewatch.com offer tips on how to benefit from website registration. There are also meta search engines. These are engines that search for keywords on other search engines. Among them are www.metacrawler.com and www.37.com, which lets users search through 37 other search engines.

Directories or web catalogues such as Yahoo! provide a structured hierarchical listing of websites, grouped into categories such as business, entertainment and sport. Companies choose under which category to register. For example, Rolls-Royce aero engine division (www.rolls-royce.com) and seven other manufacturers can be accessed from Business_and_Economy > Business_to_Business > Aerospace > Engines on the Yahoo! directory.

Portals are websites that act as gateways to the rest of the Internet. Portals tend to be focused on particular industries or user groups and offer facilities such as search engines, directories, customizable home pages and free e-mail. For example, the portal www.CEOExpress.com provides a wealth of information and access to other sites that may be of use to busy chief executives (Fig. 8.3).

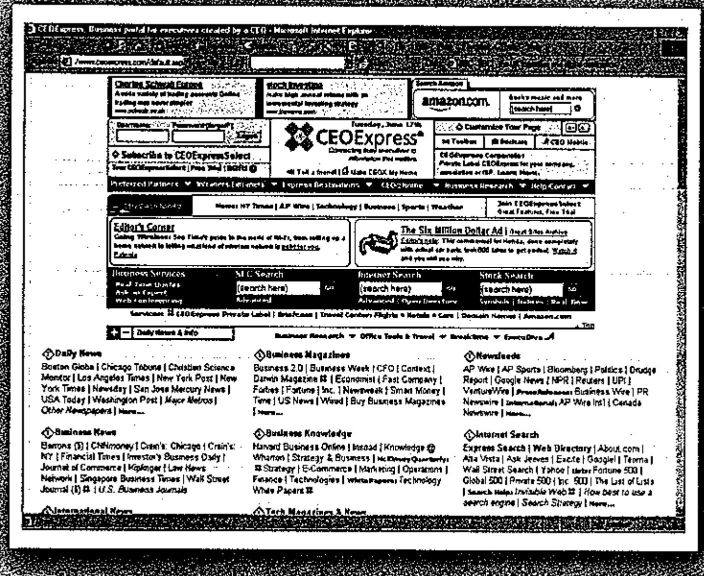

Figure 8.3
The portal CEOExpress

Surfing is a term used to describe a more intuitive and less structured approach to website searching.

When prospective customers reach your site they need to be able to do what they want. This may mean searching for a product, registering for information (effectively enabling permission-based prospecting by supplying their name, alias or e-mail address), requesting a quotation, describing their requirements and preferences.

Lists of prospects can be developed from many sources such as telephone directories, business lists, chamber of commerce memberships, professional and trade association memberships, and magazine circulation data. Lists can also be bought ready-made from list compilers and brokers. Some of these lists will be of poor quality: out of date, containing duplications, omissions and other errors. High-quality lists with full contact details, including phone and e-mail address, tend to be more expensive. Lists can support direct marketing efforts by phone, mail, e-mail, fax or face-to-face.

Canvassing and telemarketing

Canvassing involves making unsolicited calls, sometimes known as cold calls. This can be a very wasteful use of an expensive asset: the salesperson. Some companies have banned their salespeople from cold calling. Others outsource this activity to third parties. Some hotel chains, for example, use hospitality students to conduct a sales blitz that is essentially a telephone-based cold-calling campaign.

Telemarketing is widely used as a more cost-effective way of prospecting than using a salesperson. Telemarketing, sometimes called telesales, is a systematic approach to prospecting using the telephone and, sometimes, other electronic media such as fax and e-mail. Telemarketing is usually performed by the staff of customer contact centres. These are either in-house or outsourced. Outbound telemarketers make outgoing calls to identify and qualify leads. Inbound telemarketers receive calls from prospective customers. In addition to prospecting, telemarketing can be used to manage other parts of the customer lifecycle: cross-selling, handling complaints, winning back at-risk or lost customers, for example.

E-mail

A growing number of companies are using e-mail for new customer acquisition. E-mail offers several clear advantages. A very large proportion of business decision-makers have e-mail, although this does vary by country and industry. It is very cheap, costing about the same to send 1000 e-mails as it does to send one single e-mail. It is quick and simple for recipients to respond. Content can be personalized. Production values can be matched to audience preferences: you can use richly graphical or simple textual content. It is an asynchronous prospecting tool. In other words, it is not tied to a particular time-frame like a sales call. E-mail messages sit in mailboxes until they are read or deleted. It is a very flexible tool that can be linked to telesales follow-up, 'call-me' buttons or click-throughs.

When e-mail is permission based, response rates can be extraordinarily high.[5] However, there is growing resistance to spam e-mail. E-mails are spammed when they are sent to large numbers of recipients who have not been properly screened. What is spam to one recipient is valuable information to another. An important ingredient in e-mail marketing is a process by which prospects are encouraged or incentivized to provide e-mail addresses for future contact.

Sales-force automation (SFA) software, in conjunction with a selling methodology, helps B2B companies to manage the selling and communication activities that are involved in progressing a prospect towards customer status.

Business-to-consumer prospecting

In B2C contexts, the distribution of customer acquisition effort is different. More emphasis is placed on advertising, sales promotion and merchandising. However, all of the techniques described above are also used, but generally in a different way. These will be discussed later. First, we will look at advertising.

Advertising

Advertising is used as a prime method for generating new customers in B2C environments. Advertising is:

> the creation of messages that are communicated to targeted audiences through the purchase of time or space in media owned by others.

Advertising can be successful at achieving two different classes of communication objective: cognitive and affective. Cognition is concerned with what audiences know; affect is concerned with what they feel. Advertising alone is often insufficient to generate behavioural outcomes such as trial purchasing. It can, however, predispose audiences to make an intention-to-buy based on what they learned about and felt towards the advertised product.

Cognitive advertising objectives include: raising awareness, developing understanding and generating knowledge. New customers generally need to be made aware of the product, to understand what benefits it can deliver and to know the product's name and sources. Affective advertising objectives include developing a liking for the product and generating preference.

In high-involvement purchasing contexts, where products or their usage context are personally significant and relevant, prospects will normally progress through a learn–feel–do process when making their first purchase. In other words, before they buy, they acquire information that helps them to learn about and compare alternatives, thus reducing perceived risk. They then develop a preference for, and intention-to-buy, a particular solution. This is an illustration of complex problem-solving by customers. Advertising is one of the sources they can use in the learn–feel part of the process. It is, however, not the only source of information, nor is it necessarily the most powerful.

High-involvement advertising can employ long copy because prospects use advertising to learn about alternatives. Comparison advertising and copy featuring endorsements by opinion formers may be influential. Media that help prospects to acquire and process information are those that have a long dwell-time, such as magazines and newspapers.

Advertising can also evoke powerful emotional responses in audiences. The type of response that advertisers seek in prospects is 'I like the look of that. I really must try it'. This is an affective response linked to a buying intention. Advertisements for fashion items, jewellery and holiday destinations often aim for an emotional response. Television advertisements evoke emotions by their clever mix of voice, music, images and sound effects. Advertisers can pre-test different executions to ensure that the right sort of emotional response is evoked.

In low-involvement contexts, where the product or its usage context is relatively unimportant, prospects are very unlikely to go through a complex and effortful learn–feel–do process. Rather, there will be little or no prepurchase comparison of alternatives. The prospect becomes aware of the product and buys it. There may not even be postpurchase evaluation of the product except in the most elementary of forms. Evaluation may only take place if the product fails to deliver the benefits expected. The purchase model is therefore learn–do. The role of advertising for low-involvement products is to build and maintain brand awareness and recognition. Copy needs to be kept short: prospects will not read long advertising copy. Recognition can be achieved with the use of simple visual cues. Repetition of the advertisement in low-involvement media such as TV and radio will be needed to build awareness and recognition.

Advertisers are concerned with two major issues as they attempt to generate new customers: message and media issues. Which messages will generate most new customers, and which media are most cost-effective at customer acquisition?

Message

It has been suggested that heavy media users are exposed to over 1100 advertisements per week. Yet, how many can the person recall? In an increasingly communicated world, it is a first requirement that an advertisement stand out from the background clutter and claim the audience's attention. Without that, no cognitive, affective or behavioural outcomes can be achieved. Standing out means being different from the mass of advertisements and other stimuli that compete for a prospect's attention. This is a matter both of message creativity and execution, and media selection. What stands out? Black and white advertisements in colour magazines, image-based advertisements in text-dominated media, loud advertisements in a quiet medium, advertisements that leave you wondering 'what was that all about?' and advertisements that challenge your comprehension and emotions.

Message execution is an important issue in gaining an audience's attention. Messages can be executed in many different ways. Execution describes the way in which a basic copy strategy is delivered. Basic copy strategy is the core message or theme of the campaign. Execution styles can be classified in a number of ways: rational or emotional, factual or fanciful, funny or serious. Individual forms of execution include slice-of-life (product being used in a recognizable context), aspirational (associates the product with a desirable outcome or lifestyle), testimonial (the product is endorsed by an opinion-former) and comparative (the advertisement compares one or more alternatives with the advertised product).

Advertisements often close with a 'call to action', such as a suggestion that the audience clip a coupon, call a number or register online. These actions generate useful sources of prospects that can then be followed up.

Pretesting messages on a sample of potential new customers is a way to improve the chances of an advertisement achieving its objectives. Among the criteria you can assess are:

- **recall:** how much of the advertisement can the sample recall?
- **comprehension:** does the sample understand the advertisement?
- **credibility:** is the message believable?
- **feelings evoked:** how does the sample feel about the advertisement?
- **intentions-to-buy:** how likely is it that the sample will buy?

If you buy space or time in media that have local or regional editions, you can conduct post-tests to assess the effectiveness of different executions in achieving the desired outcomes.

Media

Media selection for new customer acquisition is sometimes quite straightforward. For example, there are print media such as *What Digital Camera?* and *Which Mortgage?* that are targeted specifically at new-to-category prospects and are suitable for high-involvement products. An uninvolved prospect will only learn passively about your product; there is no active search for and processing of information. Consequently, for low-involvement prospects frequency is a more important media consideration than reach. These are defined as follows:

Reach: the total number of a targeted audience that is exposed at least once to a particular advertisement or campaign.

Frequency: the average number of times that a targeted audience member is exposed to an advertisement or campaign.

The total number of exposures is therefore computed by multiplying reach by frequency. If your advertisement reaches two million people an average of four times, the total number of impressions or exposures is eight million. For high-involvement products, lower levels of frequency are generally needed. Advertising agencies should be able to offer advice on how many exposures (frequency) it takes to evoke a particular response in an audience member. Krugman claimed that three exposures were enough.[6]

You can compute various media efficiency statistics to obtain better value for money from your customer acquisition budget. These include:

- response rates
- conversion rates.

1	2	3	4	5	6	7	8	9	10	11	12
Vehicle	Date	Readership	Ad space cost ($)	Cost per thousand (CPM) ($)	Coupons returned	Coupon response rate (%)	Orders received from new customers	Coupon conversion rate (%)	Total order value ($)	Average order value ($)	Ratio: Ad cost to total order value
Daily News	15/3	300 000	500	1.67	655	0.0022	200	30.53	10 000	50	1:20
Supermarket tabloid	20/3	500 000	1000	2.00	1205	0.0024	80	6.64	3 200	40	1:3.2
Sunday News	25/3	200 000	600	3.00	350	0.00175	175	50.00	10 500	60	1:17.5
Consumer Colour Magazine	30/3	30 000	1000	33.33	120	0.004	100	83.33	22 000	220	1.22

Figure 8.4 Customer acquisition report

Response rates might include coupons clipped and returned, or calls requesting information [requests for information (RFIs)] made to a contact centre. Conversion rates can include sales made as a percentage of coupons returned, or proposals submitted as a percentage of RFIs.

Figure 8.4 indicates the sorts of statistics that can be used to evaluate and guide customer acquisition strategies.

The figure contains a number of descriptive and analytical statistics for four different print advertising vehicles: cost-per-thousand (column 5: how may dollars does it cost to reach 1000 of the advertising vehicle's audience), coupons returned, coupons returned as a percentage of audience reached, orders received from new customers, coupon conversion rate, total order value received, average order value, and advertising effectiveness ratio (column 12: how many dollars of orders were received per dollar spent on advertising in the vehicle). The Daily News is most cost-efficient at delivering an audience since its cost-per-thousand (CPM) is lowest (column 5). The Supermarket Tabloid returns most coupons (column 6), but runs second to the Consumer Colour Magazine in terms of coupon response rate (the percentage of the delivered audience that returns a coupon, column 7). The coupon conversion rate tells you how many coupon enquiries convert into first-time customers (column 9). The Daily News generates most orders from new customers (column 8), but the Consumer Colour Magazine generates the highest total order value (column 10), the highest average order value (column 11) and the best advertisement cost to total sales ratio (column 12). The Sunday News performs less well than the other vehicles in all categories. It does, however, generate a relatively large number of lower value customers quite cost-effectively. It generated 175 customers spending an average of $60, and for every dollar spent of advertising it yielded revenues of $17.50.

Critics of the use of advertising for customer acquisition claim that advertisements are ineffective at customer acquisition. They argue that advertisements work on current and past customers and therefore impact more on retention.[7,8] Others point to the ineffectiveness of advertising at influencing sales at all. Lodish, for example, concluded that 'there is no simple correspondence between increased TV advertising weight and increased sales'.[9] In another study he found that the sales of only 49 per cent of advertised products responded positively to increases in advertising weight.[10]

Campaign management software can help CRM practitioners to construct, conduct and evaluate advertising campaigns. Such software becomes increasingly important as marketing campaigns become more selective in their audience, and more tailored in their message.

Sales promotion

A sales promotion is:

> any behaviour-triggering temporary incentive aimed at prospects, customers, channel members or salespeople.

Although sales promotions can be directed at salespeople and channel members, our concern here is only with sales promotions aimed at prospects or customers as they climb the early rungs of the value-ladder. As the definition makes clear, sales promotions offer a temporary and immediate inducement to buy a product. They are not part of the normal value proposition. There are many forms of consumer sales promotion.

- **Sampling**: this is the provision of a free sample of the product. This can be delivered in a number of ways: mailed or dropped door-to-door, or bound or packed with a related item. Sampling is expensive not only because of distribution costs but also because it may be necessary to set up a special production run with unique promotional packaging. However, sampling is highly effective at generating trial, especially if the sample is accompanied by a voucher offering a discount of the first regular purchase. Sampling has been used for coffee, breakfast cereal and moisturizer products. It has also been used in the online context service. In 1999, Charles Schwab, an execution-only broker, offered free e-trading to new customers. It signed up 8500 new customers, over 6000 of whom remained active once the 3 month trial period ended.
- **Free trial**: some companies offer products to customers on an approval basis. If they like the product they keep it and pay. Auto dealers offer test-drives to prospective purchasers. One bedding retailer offered beds on a free trial basis to customers. They delivered the bed to the customer's home and let them try it for a month. If customers did not like it the company collected the bed.
- **Discount**: these are temporary price reductions. This reduces perceived risk and improves value for a first-time purchaser. Discounts can be promoted on-pack or in the media.
- **Coupons**: these act like money. They are redeemable on purchase, at the point of sale.
- **Rebates or cashbacks**: in consumer goods markets, these are often offered on-pack and require collection of proofs of purchase. Their use has extended into automobile and mortgage markets. Take out a loan to buy a car, and receive $500 in cash back from the dealer.
- **Bonus packs**: these are promotions in which the customer obtains more volume at an unchanged price. A customer might get 2.5 litres of juice for the price of a 2 litre pack.
- **Banded packs**: a banded pack promotion offers two, or rarely three, products banded together at a bundled price. A customer might be offered a banded pack of shaving gel and aftershave balm.
- **Free premiums**: these are gifts to the customer. The gift may be offered at the point-of-purchase or in packaging, or require the customer to mail or phone in a request.
- **Lotteries**: a lottery is a game of chance, not involving skill. Consumers are invited to purchase the product and be entered into a draw for a prize. Prizes are highly variable. They range from low-value items to high-value prizes such as personal makeovers, exotic holidays and even fully furnished houses.
- **Competitions**: unlike a lottery, a competition requires skill or knowledge. The prizes are varied, as in the case of lotteries.

Merchandising

Merchandising can be defined as:

> any behaviour-triggering stimulus or pattern of stimuli, other than personal selling, that takes place at retail or other points-of-sale.

Merchandising is designed to influence behaviour in-store or at other points of sale such as restaurants, banks or petrol stations. Merchandisers have available a large number of techniques. These include retail floor plans, shelf-space positioning, special displays, window displays and point-of-sale print. Some forms of merchandising are particularly useful for generating new customers, for example, money-off signs, 'as used by' and 'as advertised' signs. Related item displays place two or more related items together, for example, toppings next to ice-cream or dressings next to salads. Sales of one category assist sales of the other, for example, a new type of topping or dressing. Eye-level positions on shelves are generally more productive than 'reach' or 'stoop' positions. If merchandisers can position new products in these preferred positions sales will be positively influenced.

Other tools for customer acquisition

As mentioned earlier in the section on B2B customer acquisition, B2C companies can also use referral schemes, promotions such as consumer exhibitions, publicity, telemarketing, e-mail and canvassing to generate new customers.

Companies believe that delighted, or even completely satisfied customers will naturally speak well of the company. Eismann, a German frozen food manufacturer, estimates that 30 per cent of its new customers are recruited by **referrals** from satisfied customers.[11] Companies may still choose to develop a customer referral scheme (CRS) (see Case 8.1). CRSs are also known as member-get-member (MGM) and recommend-a-friend (RAF) schemes. These work by inviting existing customers to recommend a friend. Often the recommender is rewarded with a gift. It is important to choose the right customer and the right time to invite a referral. Broadly, schemes are more effective when targeted at a relevant section of the customer base, such as customers who are satisfied or customers who have just experienced excellent service. For example, companies offering roadside assistance to stranded motorists will ask for a referral when the vehicle is repaired and the customer's anxiety levels have been reduced.[12]

The automobile manufacturer Lexus invites up to 300 potential buyers to stylish **events** such as dinner-and-theatre shows or dinner-and-concert performances. The Lexus vehicles are on display. Also invited are current Lexus owners who sit among the prospects and talk to them. Lexus knows from customer satisfaction surveys which customers to invite. It is a very soft sell. Current owners receive no direct reward for participation other than the opportunity to enjoy the event.

Fashion retailers will organize fashion **shows** for current customers who are invited to bring along a friend who might be interested. Party plans have been popular for many years. Distributors of products such as

Case 8.1

Customer referrals at NTL

NTL is a leading Internet, telephone and pay television provider in the UK. The organization has grown through the acquisition of other businesses and now has a large base of over 500 000 customers.

To achieve further growth, NTL started to use its current customers to help them with prospecting. The company developed profiles of customers who had previously referred others. This profile was mapped onto the entire database and current customers matching the profile were contacted. NTL offered one month's free subscription to existing customers who introduced a new customer. This proved to be hugely successful, with 34 per cent of existing customers in the consumer broadband market referring at least one potential customer. After the 2 month promotion was complete, 29 per cent of those referred had signed up for a service with NTL.

Tupperware and Anne Summers sex aids organize parties in their own homes. They invite friends and neighbours organizers along. Refreshments are offered and products are exhibited and demonstrated.

Publicity obtained by Richard Branson, founder of the Virgin Group of companies, enables companies in the group to spend less than major competitors on advertising. Branson excels at gaining publicity. When Virgin Cola was launched in the USA, he hired a tank to roll into Times Square and take a 'shot' at Coca-Cola's illuminated advertising sign. All the TV networks were invited to film the stunt, as were representatives of the press. A huge amount of free publicity was achieved as the brand sought to build its customer base.

Telemarketing and **cold-canvassing** to people's homes is a contentious issue. Many customers feel that these methods are too intrusive. Nonetheless, companies in the telecoms and utility industries still use the method. Selling door-to-door to well-targeted prospects is a different matter. Fuller Brushes, Avon Cosmetics, Collier's Encyclopaedias and Prudential Insurance have a long tradition of door-to-door selling.

Many prospects feel that **telemarketing** for customer acquisition is intrusive. However, outbound telemarketing is a very popular and cost-effective method of qualifying leads.

SMS messaging can also be used for customer acquisition. Because it is text and not voice, it does not have to be answered in the traditional sense. SMS has been used very successfully for local bar and club promotions among adolescents. As the medium is so immediate, offers can be switched on at the last minute for highly perishable cinema and retail offers. As personal communication devices become more popular, so will the distribution of messaging in text and visual as well as video formats, all of which will be increasingly targeted to the prospects' known profiles.

E-mail is also useful for B2C customer acquisition programmes. Over 95 per cent of people with Internet access at home use it for e-mail, often on a daily basis.[13] In the UK, organizations such as Dell Computers, Barclays Bank, Comic Relief and Epson printers have used e-mail to acquire new customers. The same benefits and reservations outlined in the earlier discussion of e-mail also apply in the B2C context.

Recent innovations in new customer acquisition tactics include product placement and the use of pitchers. **Product placement** involves arranging for products to be shown on display or in use in television and movie productions. There is no explicit promotion of the product; it is simply seen in the production. Actors may use the product or it may be used as a background prop. The costs of producing the movie *Minority Report* were fully recovered before it was released. Companies had paid handsomely for their products to appear in the movie.

Pitchers approach prospective customers and ask them to buy a product. Pitching is a well-known practice in street trading, but has now been extended into other forms of retail. For example, pitchers will approach dancers in a club and ask them whether they have tried a new drink, then suggest that they buy some. Pitchers generally are expected to act as if they are unpaid advocates, therefore simulating genuine word-of-mouth.

Key performance indicators of customer acquisition programmes

Practitioners of CRM are concerned with three key performance indicators (KPIs) for these customer acquisition activities:

- How many customers are acquired?
- What is the cost per acquired customer?
- What is the value of the acquired customer?

The ideal combination is a low-cost programme that generates lots of highly valuable customers.

Some customer acquisition programmes may require major capital investment, as well as marketing expense. A supermarket operator may build new stores to increase geographical coverage. A financial services institution may invest in IT infrastructure for a new Internet-based channel. A manufacturer of automotive parts may build a new factory close to prospective customers.

Customer referral schemes are very cost-effective methods of acquiring customers. They cost little to operate but they also generate few new customers. However, the customers generated by these schemes tend to be more loyal (less likely to defect) and higher spenders. Advertising can generate a lot of enquiries, but these may be very poor-quality prospects with low conversion rates into first-time customers and, ultimately, low customer value. This is particularly true if the advertising is poorly targeted. Customers won by a sales promotion may be deal prone. In other words, they are not acquired for the long term, but switch whenever there is a better opportunity.

Companies can compare the relative costs of customer acquisition per channel before deciding how to spend their acquisition dollars. For example, a motoring membership organization knows that its MGM scheme has a direct cost per new customer of £22 compared with £100 for direct response TV and £70 for door-drops. The average is £35. A telecoms company reports that it costs £52 to win a new customer through its RAF programme, compared with an average of £100 and an advertising-generated cost of £200.[12] The costs of acquiring new customers online are variable over time and across categories. In 1999, Amazon.com claimed that it was costing $29 to acquire each new customer;[14] credit-card operators claimed that it cost $50–$75, and mortgage customers cost $100–$250 to acquire.[15]

Costs of customer acquisition are one-off costs that are not encountered again at any stage in a customer's tenure. The costs may include prospecting costs, advertising costs, commissions to salespeople, collateral materials, sales promotion costs, credit referencing, supplying tangibles (e.g. credit cards) and database costs. Many sales managers incentivize their salespeople to find new customers. These incentives, whether cash, merchandise or some other reward, are a cost of acquisition.

Using customer data to guide customer acquisition

In a CRM environment it is often possible to query the current and prospective customer databases for clues to guide customer acquisition. For example, salespeople may have entered data about prospects' satisfaction with competitors' offerings. Those who are less satisfied will be likely to show a higher propensity to switch, and may be worth targeting with an offer.

Data mining can be used to identify which customers show the greatest potential for a company. Queries might include the following.

- What is the profile of customers (or segments) having the greatest lifetime value?
- How were these customer originally acquired?
- What products did these customers originally buy?

With this information it could be possible to identify prospects with the same profile, approach them through the same channels and offer them the same introductory product.

Data mining can also be used to identify which existing customers are most likely to respond to the offer of a product from a category they do not already buy (see Case 8.2). For example, a bank might want to generate new customers for its savings account. A model can be produced that predicts propensity to buy based on current product ownership. Then business rules can be applied that guide the precise composition of the offer.

Case 8.2

Customer acquisition at Telecom New Zealand

In recent years, with deregulation of the telecommunications market and increased competition, Telecom New Zealand has become smarter at using its customer data to guide new customer acquisition and to acquire new business from existing customers.

To achieve this, the organization makes use of its CRM system to undertake data mining. This helps the company to identify a wide range of information such as the segments that might be interested in a new or existing product or service, the growth or declining trends in market segments, the segments that have the highest lifetime value and the channels most successful for acquiring customer segments or selling specific products or services.

Telecom New Zealand estimates that around 50 per cent of all new customers acquired are a result of the use of analysing existing customer data. One illustration is of analysing the customers for existing narrowband Internet services. Telecom New Zealand was able to identify a segment for a new broadband service. Through targeted advertising to this segment over 18 000 of the existing customers switched to the broadband service within 4 months.