



CUSTOMER RELATIONSHIP MANAGEMENT

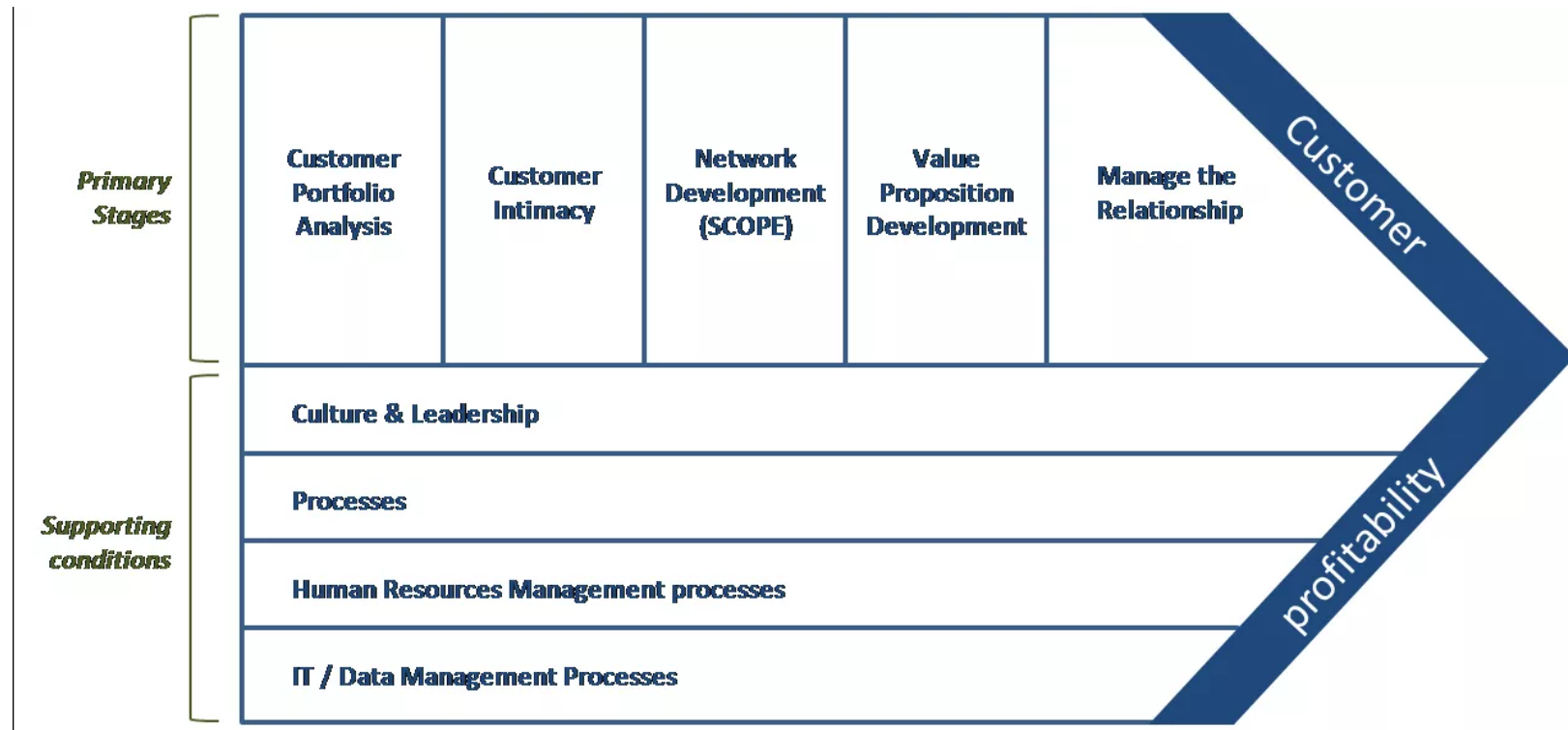
CONCEPTS AND TECHNOLOGIES

Chapter 5

Customer Portfolio Management

سیستم های ارتباط با مشتری
مدیریت مجموعه مشتریان
دکتر فرشید عبدی

زنجیره ارزش CRM



CHAPTER OBJECTIVES

By the end of this chapter you will understand:

- The benefits that flow from managing customers as a portfolio.
- A number of disciplines that contribute to customer portfolio management, including market segmentation, sales forecasting, activity-based costing, lifetime value estimation and data mining.
- How customer portfolio management differs between business-to-consumer and business-to-business contexts.
- How to use a number of business-to-business portfolio analysis tools.
- The range of customer management strategies that can be deployed across a customer portfolio.

تعریف مجموعه مشتریان Customer Portfolio definition

❖ A customer portfolio is the collection of mutually exclusive customer groups that comprise a business's entire customer base.

❖ عبارت است از جمع آوری گروه‌های دو به دو ناسازگار از مشتریان در یک سبد. جمع این گروه‌ها، کل پایگاه مشتریان را ایجاد می‌کند.



Objectives of Customer Portfolio Management (CPM)

اهداف مدیریت مجموعه مشتریان

- ❖ CPM aims to optimise business performance – whether that means sales growth, enhanced customer profitability, or something else - across the entire customer base.

❖ هدف بهینه کردن عملکرد کسب و کار است، یا بوسیله افزایش فروش، زیاد کردن سود حاصل از مشتری و یا کار دیگری که مرتبط با پایگاه مشتری باشد.

- ❖ It does this by offering differentiated value propositions to different segments of customers.

❖ عرضه پیشنهادهای ارزش مختلف به خوشه های متنوع مشتریان



رشته های مرتبط با مدیریت مجموعه مشتریان Basic disciplines for CPM

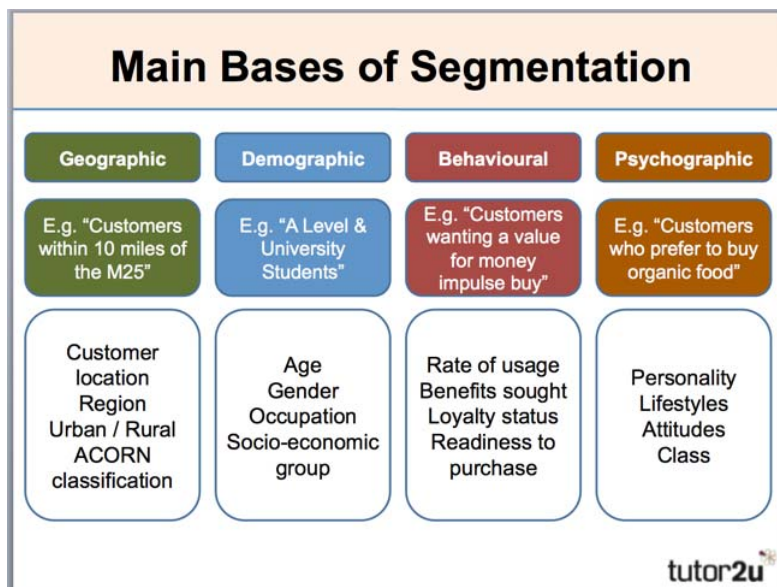
- ❖ market segmentation بخش بندی بازار
- ❖ sales forecasting پیش بینی فروش
- ❖ activity-based costing هزینه یابی مبتنی بر فعالیت
- ❖ customer life-time value estimation تخمین ارزش طول عمر مشتری
- ❖ data-mining داده کاوی



بخش بندی بازار Market segmentation definition

❖ Market segmentation is the process of dividing up a market into more-or-less homogenous subsets for which it is possible to create different value propositions.

❖ فرایند تقسیم بازار به دو یا چند زیر مجموعه همگن است تا به هر یک از آنها پیشنهاد ارزش متفاوتی عرضه شود.



بخش بندی حدسی در مقابل مبتنی بر داده Intuitive vs. data-based segmentation

❖ Intuitive حدسی

- brain-storm segmentation variables
توفان مغزی درباره متغیرها
 - age, gender, life-style
 - SIC, size, location
- produce word-profiles
- compute sizes of segments
- assess company/segment fit
- make targeting decision
 - one/several/all segments?

❖ Data-based مبتنی بر داده

- Obtain customer data
 - Internal and external
- analyse customer data
- identify high/medium/low value customer segments
- profile customers within segments
 - age, gender, life-style
 - SIC, size, location
- assess company/segment fit
- make targeting decision
 - one/several/all segments?

Market segmentation process فرایند بخش بندی بازار

1. identify the business you are in تعیین نوع کسب و کار
2. identify relevant segmentation variables تعیین متغیرهای مرتبط
3. analyse the market using these variables تجزیه و تحلیل بازار بر اساس متغیرها
4. assess the value of the market segments ارزشیابی ارزش بخشهای بازار
5. select target market(s) to serve انتخاب بازار هدف

انواع رقبا (kitchen furniture example) Types of competitor

- ❖ **Benefit competitors** دارای منفعت مشابه
 - other companies delivering the same benefit to customers. These might include window replacement companies, heating and air-conditioning companies and bathroom renovation companies
- ❖ **Product competitors** دارای محصول مشابه
 - other companies marketing kitchens to customers seeking the same benefit.
- ❖ **Geographic competitors** هم مکان
 - these are benefit and product competitors operating in the same geographic territory

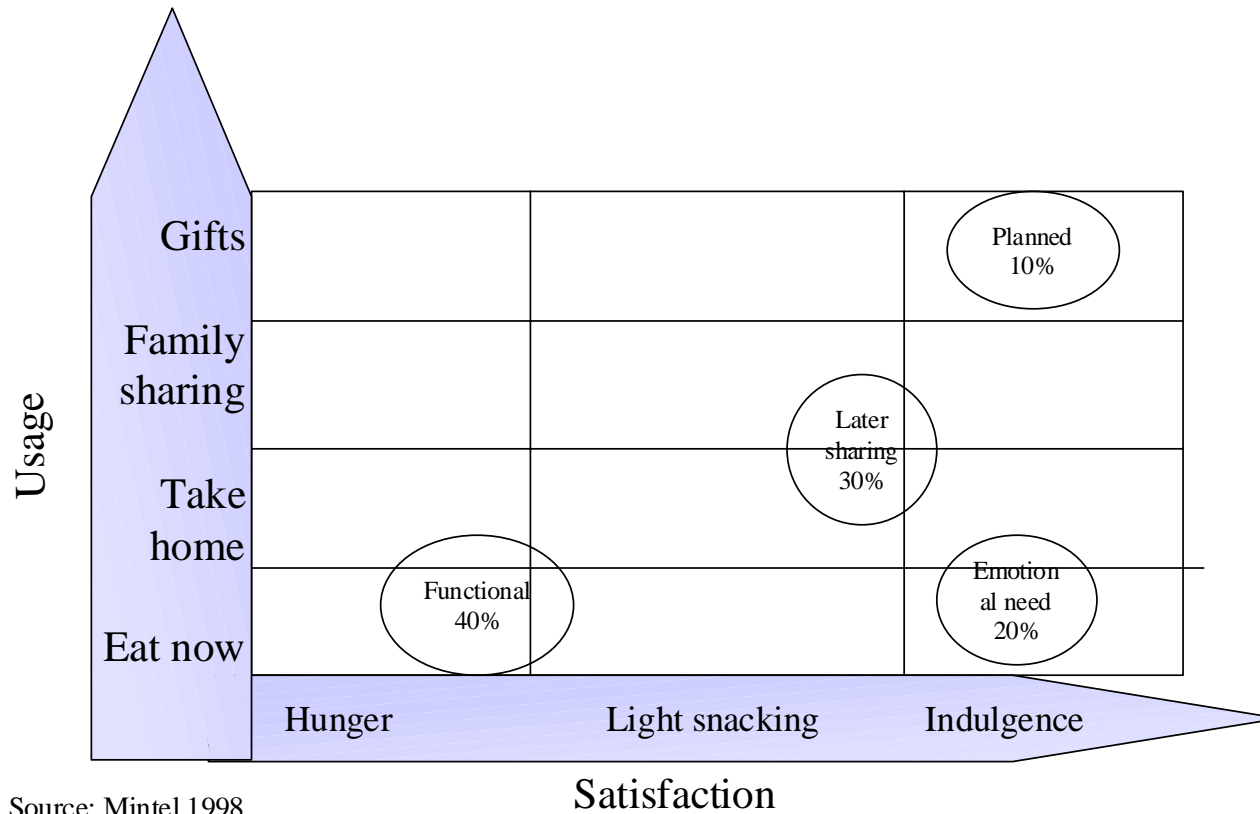
Criteria for segmenting consumer markets

معیارهای بخش بندی مشتریان

User attributes مشخصات مشتری	<i>Demographic attributes:</i> age, gender, occupational status, household size, marital status, terminal educational age, household income, stage of family life-cycle, religion, ethnic origin, nationality <i>Geographic attributes:</i> country, region, TV region, city, city size, post-code, residential neighbourhood <i>Psychographic attributes:</i> life-style, personality
Usage attributes مشخصات استفاده	Benefits sought, volume consumed, share of category spend

Bivariate segmentation of the chocolate market

بخش بندی دو متغیره بازار شکلات



Source: Mintel 1998

Criteria for segmenting business markets

معیارهای بخش بندی بازارهای بین شرکتی

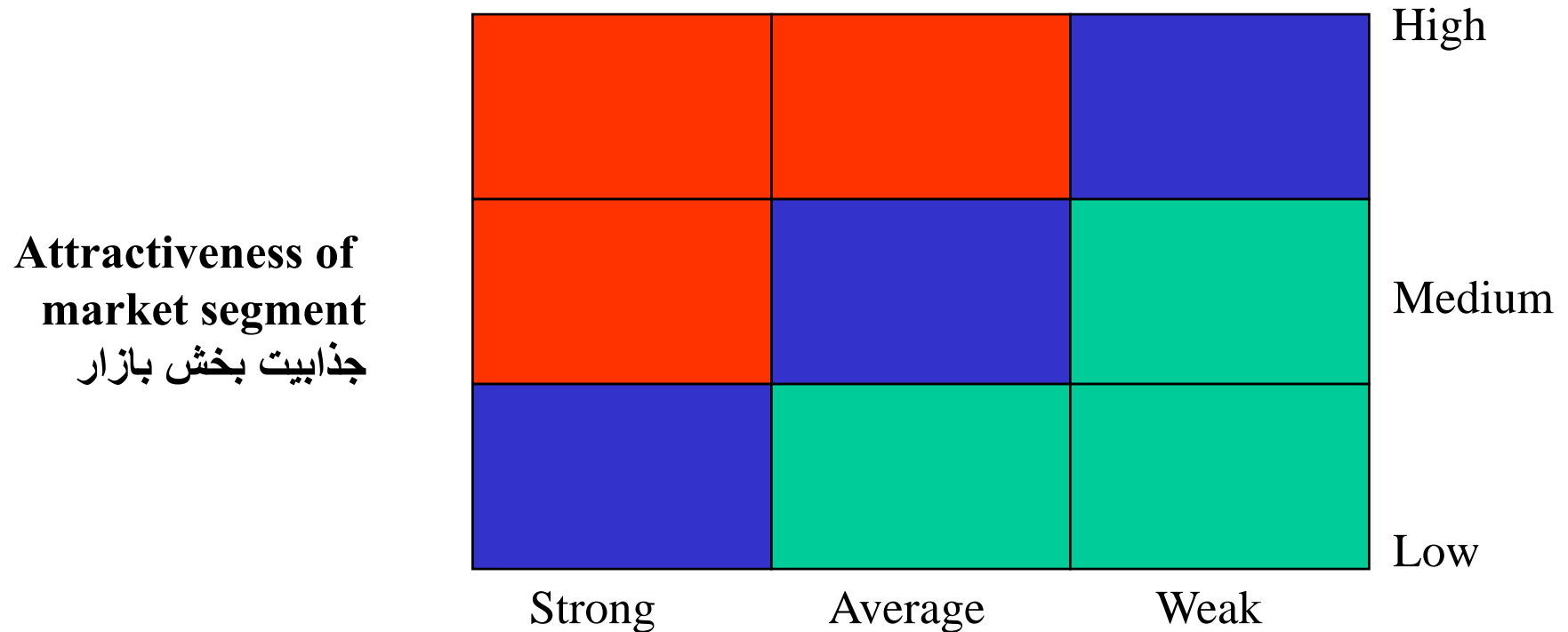
Business market segmentation criteria	Illustration
International Standard Industrial Classification	An internationally agreed standard for classifying goods and service producers
Dispersion	Geographically concentrated or dispersed
Size	Large, medium, small businesses: classified by number of employees, number of customers, profit or turnover
Account status	Global account, National account, Regional account, A or B or C class accounts
Account value	<\$50,000, <\$100,000, <\$200,000, <\$500,000
Buying processes	Open tender, sealed bid, internet auction, centralized, decentralized
Buying criteria	Continuity of supply (reliability), product quality, price, customisation, just-in-time, service support before or after sale
Propensity to switch	Satisfied with current suppliers, Dissatisfied
Share of customer spend in the category	Sole supplier, majority supplier, minority supplier, non-supplier
Geography	City, region, country, trading bloc (ASEAN, EU)

Examples of ISIC codes

ISIC 4-digit code	Activity
1200	Mining of uranium and thorium ores
2511	Manufacture of rubber tyres and tubes; re-treading and rebuilding of rubber tyres
5520	Restaurants, bars and canteens
8030	Higher education

McKinsey/GE customer portfolio matrix

ماتریس سبد مشتریان مک کنزی و جنرال الکتریک



Attractive markets

Medium-priority markets

Unattractive markets

Sales forecasting methods روشهای پیش بینی فروش

❖ Qualitative methods

- Customer surveys
- Sales team estimates

❖ Time-series methods

- Moving average
- Exponential smoothing
- Time-series decomposition

❖ Causal methods

- Leading indicators
- Regression models

Sales forecasting using moving averages میانگین موزون متحرک

Year	Sales volumes	2-year moving average	4-year moving average
2002	4830		
2003	4930		
2004	4870	4880	
2005	5210	4900	
2006	5330	5040	4960
2007	5660	5270	5085
2008	5440	5495	5267
2009		5550	5410

Costs vary over the customer base 1

❖ *Customer acquisition costs.*

- Some customers require considerable sales effort to shift them from prospect to first-time customer status: more sales calls, visits to reference customer sites, free samples, engineering advice, guarantees that switching costs will be met by the vendor.

❖ *Terms of trade.*

- Price discounts, advertising and promotion support, slotting allowances (cash paid to retailers for shelf-space), extended invoice due-dates.

Costs vary over the customer base 2

❖ *Customer service costs.*

- Handling queries, claims and complaints, demands on salesperson and contact centre, small order sizes, high order frequency, just-in-time delivery, part-load shipments, breaking bulk for delivery to multiple sites.

❖ *Working capital costs.*

- Carrying inventory for the customer, cost of credit.

ABC in a claims processing department

هزینه یابی مبتنی بر فعالیت

General ledger: claims processing department				ABC view: claims processing dept.	
	\$	\$	\$		\$
	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>		
Salaries	620,400	600,000	(21,400)	Key/scan claims	31,500
Equipment	161,200	150,000	(11,200)	Analyse claims	121,000
Travel expenses	58,000	60,000	2,000	Suspend claims	32,500
Supplies	43,900	40,000	(3,900)	Receive provider enquiries	101,500
Use & Occupancy	<u>30,000</u>	<u>30,000</u>	-----	Resolve member problems	83,400
Total	914,500	880,000	(34,500)	Process batches	45,000
				Determine eligibility	119,000
				Make copies	145,500
				Write correspondence	77,100
				Attend training	<u>158,000</u>
				Total	914,500

How ABC helps CPM

چگونگی استفاده از هزینه یابی فعالیت در مدیریت مجموعه مشتریان

- ❖ When combined with revenue figures, it tells you the absolute and relative levels of profit generated by each customer, segment or cohort
- ❖ It guides you towards actions that can be taken to return customers to profit.
- ❖ It helps prioritise and direct customer acquisition, retention and development strategies
- ❖ It helps establish whether customisation, and other forms of value creation for customers, pays off

LTV formula فرمول ارزش طول عمر

$$LTV = m \left(\frac{r}{1 + i - r} \right)$$

where

LTV = lifetime value

m = margin or profit from a customer per period

r = retention rate (e.g. 0.8 or 80%)

i = discount rate (e.g. 0.12 or 12%)

Margin multiples ضرایب حاشیه سود

RETENTION RATE	DISCOUNT RATE			
	10%	12%	14%	16%
60%	1.20	1.15	1.11	1.07
70%	1.75	1.67	1.59	1.52
80%	2.67	2.50	2.35	2.22
90%	4.50	4.09	3.75	3.46

Data-mining for CPM داده کاوی

- ❖ Clustering techniques
 - CART
 - CHAID
- ❖ Decision trees
- ❖ Neural networks

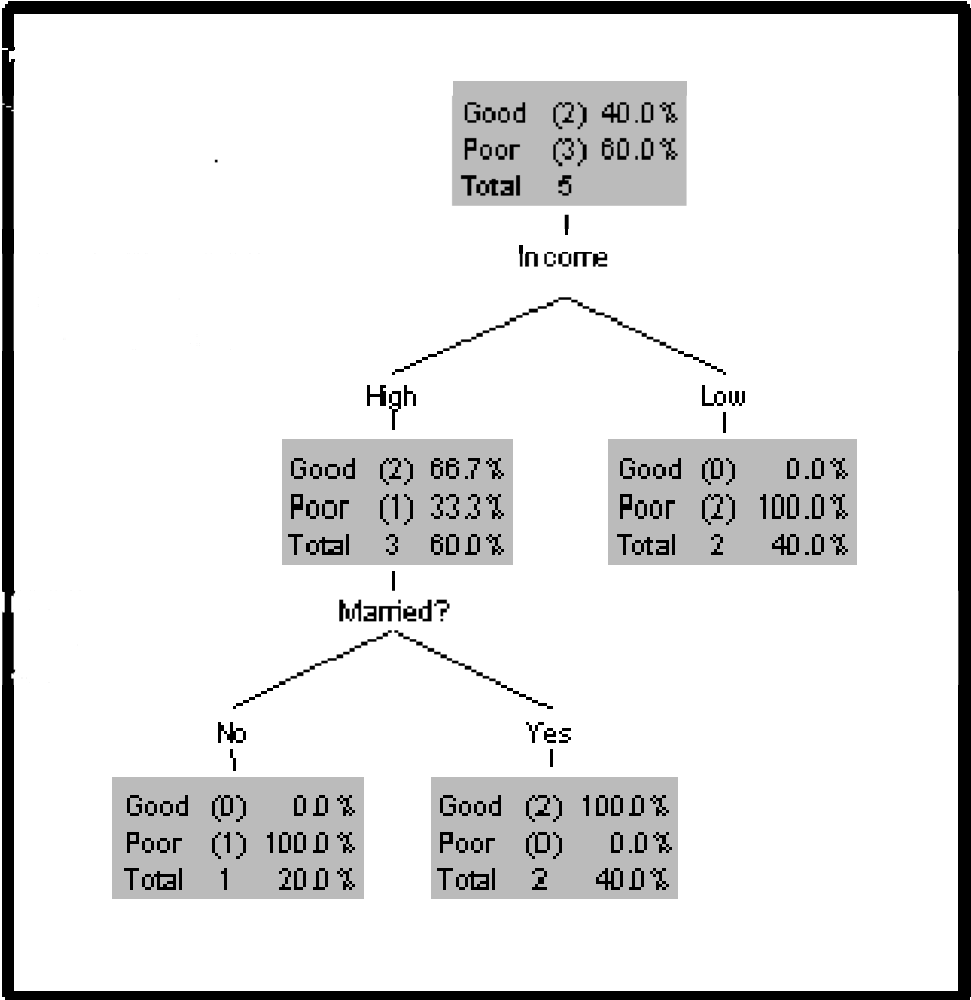
Credit risk training set

Name	Debt	Income	Married?	Risk
Joe	High	High	Yes	Good
Sue	Low	High	Yes	Good
John	Low	High	No	Poor
Mary	High	Low	Yes	Poor
Fred	Low	Low	Yes	Poor

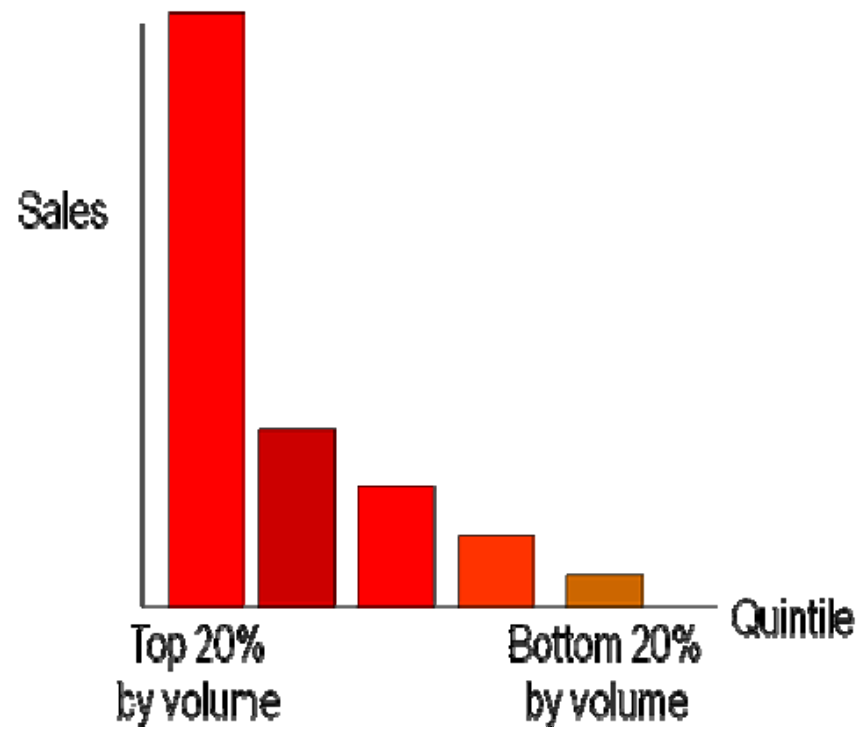
Cross-tab of dependent and independent variables

Predicted risk	High debt	Low debt	High income	Low income	Married	Not married
Good	1	1	2	0	2	0
Poor	1	2	1	2	2	1

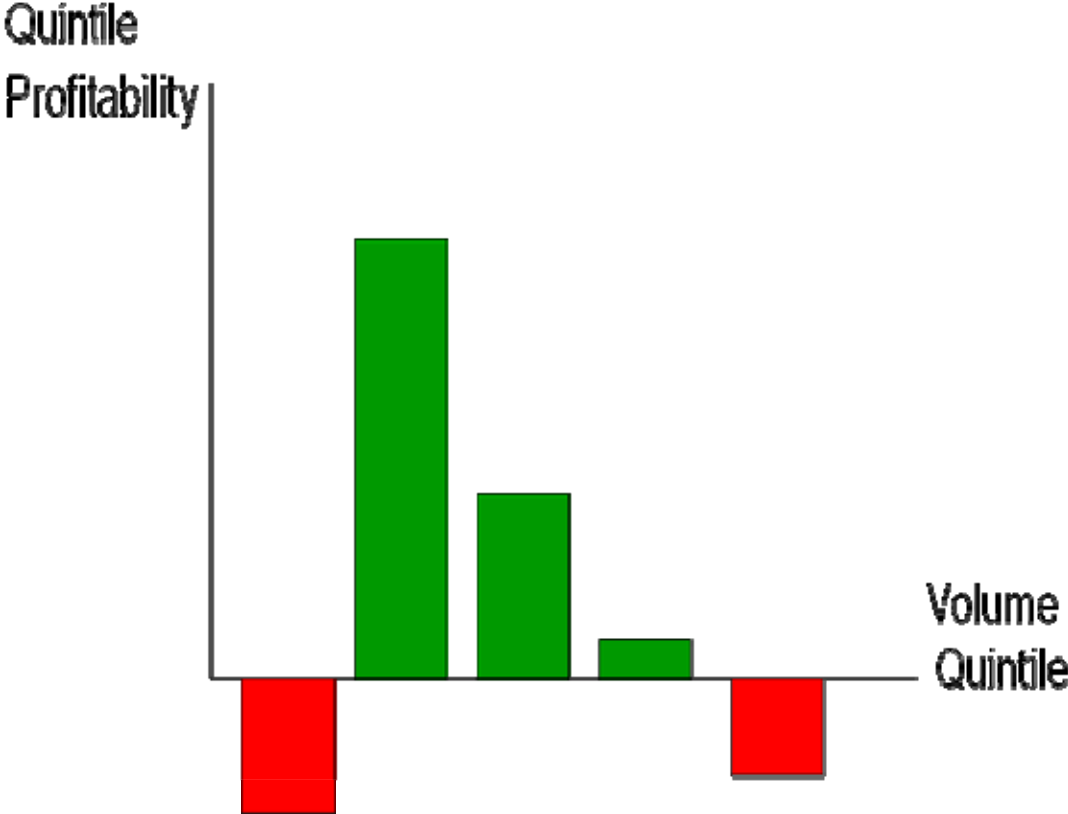
Decision tree output



The 80:20 rule or Pareto principle



Customer profitability by sales volume quintile



Shapiro et al's customer classification matrix

ماتریس طبقه بندی مشتریان شاپیرو

Received price	High	Passive	Carriage trade
	Low	Bargain basement	Aggressive
		Low	High

Cost-to-serve

How costs vary between customers متفاوت بودن انواع هزینه بر اساس مشتریان

Pre-sale costs	Production costs	Distribution costs	Post-sale costs
Geographic location: close v. distant	Order size	Shipment consolidation	Training
Prospecting	Set-up time	Preferred transportation mode	Installation
Sampling	Scrap rate	Back-haul opportunity	Technical support
Human resource: management v. reps	Customization	Location: close v. distant	Repairs and maintenance
Service: design support, applications engineering	Order timing	Logistics support e.g. field inventory	

Fiocca step 1

Difficulty in managing account

High

Low

Key difficult	Non-key difficult
Key easy	Non-key easy

High

Low

Strategic importance of account

Fiocca step 1: Strategic importance

- ❖ *Strategic importance* is related to
 - value/volume of the customer's purchases
 - potential and prestige of the customer
 - customer market leadership
 - general desirability in terms of diversification of the supplier's markets, providing access to new markets, improving technological expertise, and the impact on other relationships

Fiocca step 1: Difficulty of managing relationship

- ❖ *Difficulty of managing the customer relationship is related to:*
 - product characteristics such as novelty and complexity
 - account characteristics such as the customer's needs and requirements, customer's buying behaviour, customer's power, customer's technical and commercial competence and the customer's preference to do business with a number of suppliers
 - competition for the account which is assessed by considering the number of competitors, the strength and weaknesses of competitors and competitors' position vis à vis the customer

Fiocca step 2

- ❖ Assess key easy and key difficult accounts:
 - The customer's business attractiveness
 - The strength of the buyer/seller relationship

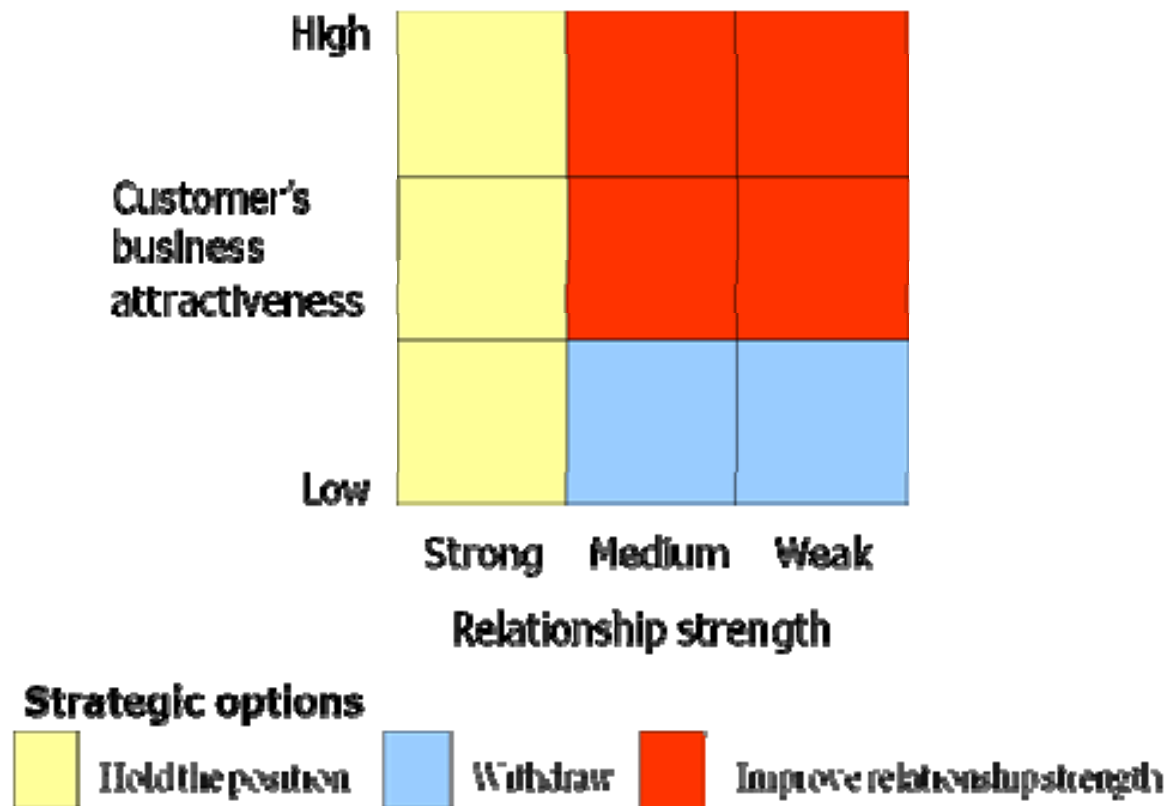
Fiocca step 2: customer attractiveness جذابیت مشتری

Market factors	Financial and economic factors
Size of key segments served by customer	Customer's margins
Customer's share of key segments	Customer's scale and experience
Customer's growth rate	Barriers to customer's entry or exit
Customer's influence on the market	Customer's capacity utilisation
Competition in the customer's market	Technological factors
Customer's position and strength	Customer's ability to cope with change
Customer's vulnerability to substitutes	Depth of customer's skills
Customer's level of integration	Types of technological know-how
	Level of customer patent protection
Socio-political factors	
Customer's ability to adapt and fit	

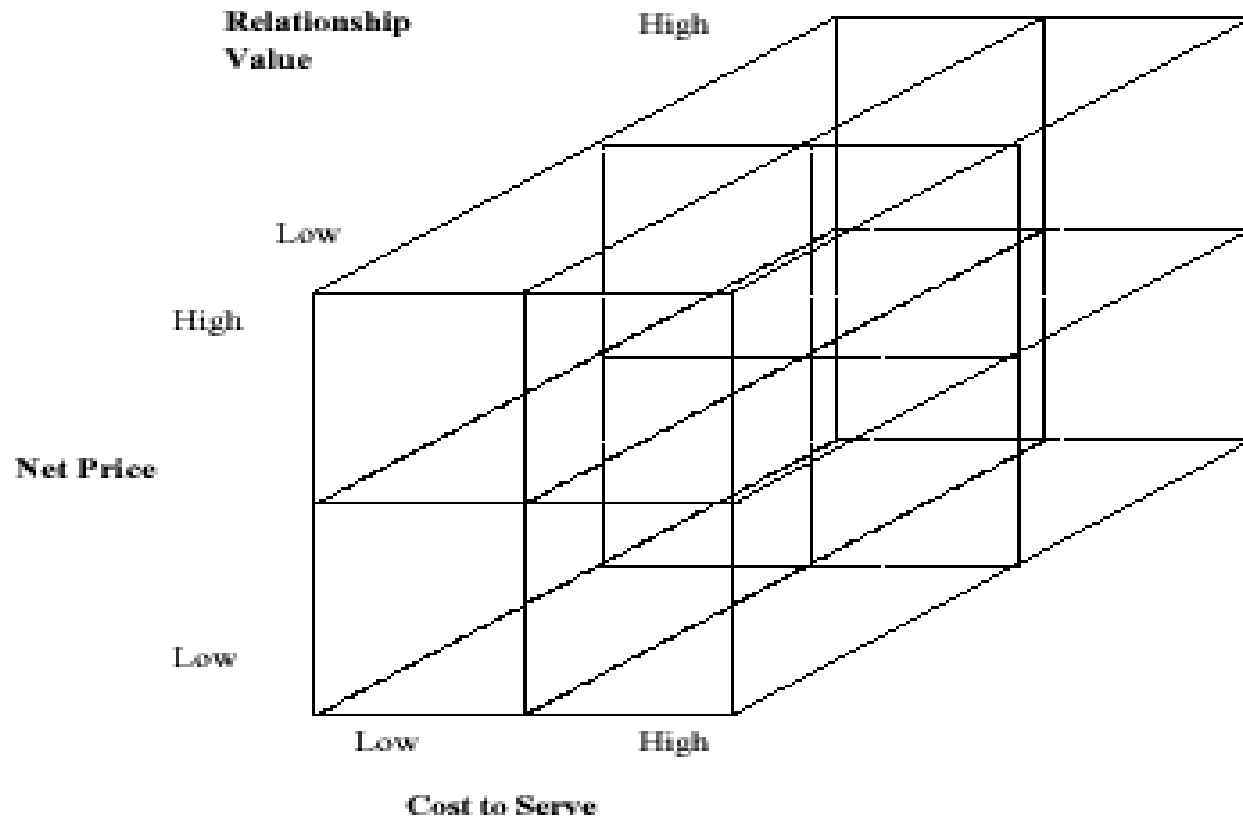
Fiocca step 2: strength of relationship استحکام رابطه

- ❖ the length of relationship
- ❖ the volume or dollar value of purchases
- ❖ the importance of the customer (percentage of customer's purchases on supplier's sales)
- ❖ personal friendships
- ❖ co-operation in product development
- ❖ management distance (language and culture)
- ❖ geographical distance

گزینه های استراتژیک Fiocca step 2: strategic options



Turnbull & Zolkiewski's 3D model مدل سه بعدی



Additional CPA tools سایر ابزارها

- ❖ SWOT analysis
- ❖ PESTE analysis
- ❖ 5-forces analysis
- ❖ BCG matrix analysis

PESTE analysis 1

❖ **Political environment**

- Demand for international air travel contracted as worldwide political stability was reduced after September 11, 2001

❖ **Economic environment.**

- Demand for mortgages falls when the economy enters recession

❖ **Social environment.**

- As a population ages, demand for health care and residential homes increase

PESTE analysis 1

❖ **Technological environment.**

- As more households become owners of computers, demand for internet banking increases

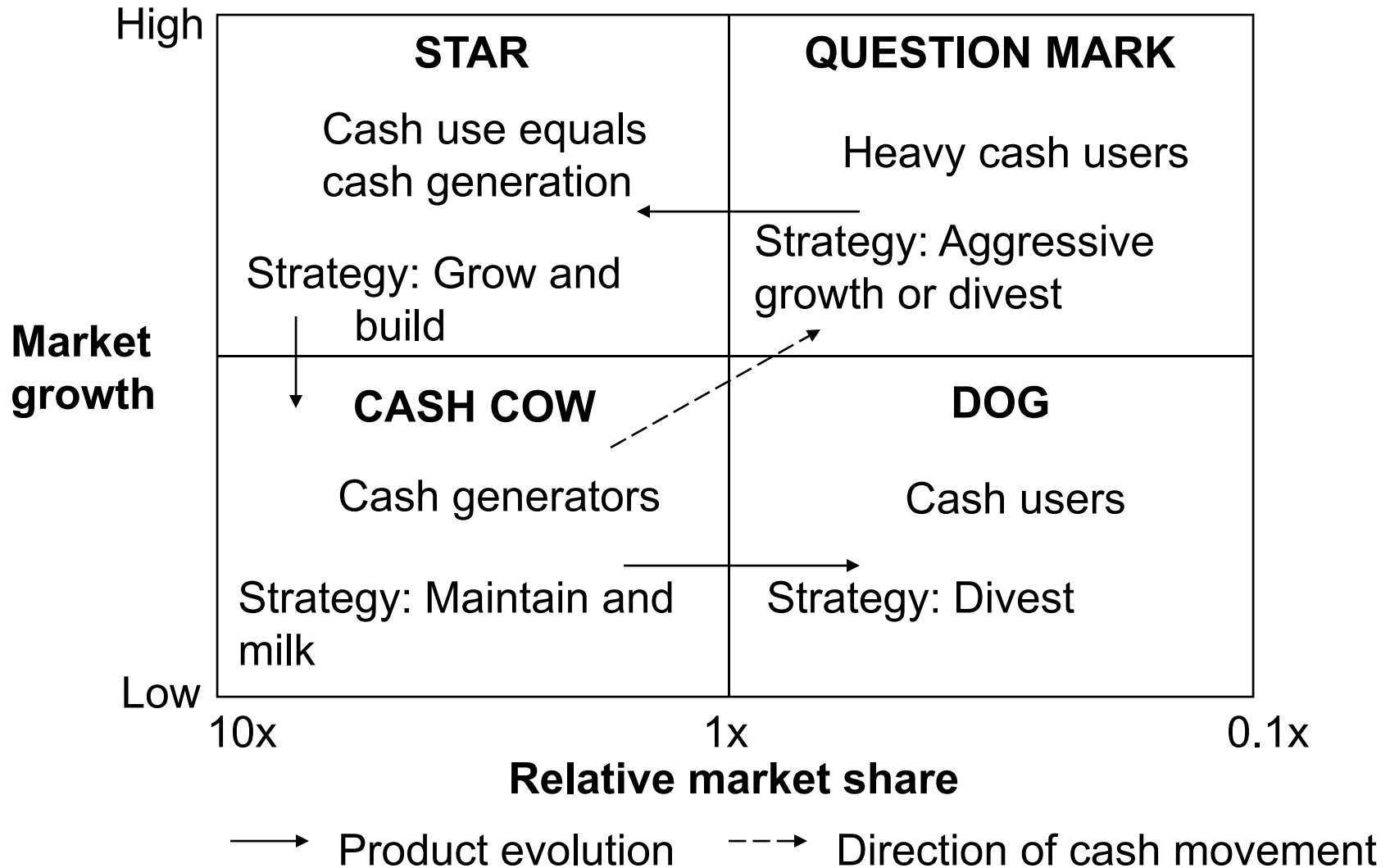
❖ **Environmental conditions.**

- As customers become more concerned about environmental quality, demand for more energy efficient products increases

5-forces analysis

- ❖ The profitability of an industry– as measured by its return on capital employed relative to its cost of capital – is determined by 5 sources of competitive pressure.
 1. competition within the established businesses in the market
 2. competition from potential new entrants
 3. competition from potential substitutes
 4. the bargaining power of buyers
 5. the bargaining power of suppliers.

BCG matrix



Strategically significant customers 1

❖ High future life-time value customers.

- These customers will contribute significantly to the company's profitability in the future

❖ High volume customers.

- These customers might not generate much profit, but they are strategically significant because of their absorption of fixed costs, and the economies of scale they generate to keep unit costs low

Strategically significant customers 2

❖ Benchmark customers.

- These are customers that other customers follow. For example, Nippon Conlux supplies the hardware and software for Coca Cola's vending operation. Whilst they might not make much margin from that relationship, it has allowed them to gain access to many other markets. 'If we are good enough for Coke, we are good enough for you', is the implied promise. Some IT companies create 'reference sites' at some of their more demanding customers.

Strategically significant customers 3

❖ Inspirations.

- These are customers who bring about improvement in the supplier's business. They may identify new applications for a product, product improvements, or opportunities for cost reductions. They may complain loudly and make unreasonable demands, but in doing so, force change for the better.

❖ Door openers.

- These are customers that allow the supplier to gain access to a new market. This may be done for no initial profit, but with a view to proving credentials for further expansion. This may be particularly important if crossing cultural boundaries, say between west and east.

SSC's at a Scandinavian timber processor

This company considers 5 attributes in identifying their strategically significant customers

- 1 Economic return
- 2 Future business potential
- 3 Learning value
- 4 Reference value
- 5 Strategic value by
 - providing access to new markets
 - strengthening incumbent positions
 - building barriers to new entrants

Seven core customer management strategies

1. Protect the relationship
2. Re-engineer the relationship
3. Enhance the relationship
4. Harvest the relationship
5. End the relationship
6. Win-back the customer
7. Start a relationship