

Customer Relationship Management in a Networked World

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The background

- The Internet has been a tremendous success story – beyond all expectations of less than a decade ago
- Technology has changed the world in some critical dimensions
 - Real time interactivity
 - Global connectivity

Customer relationship management

- Though a relatively “new” discipline, the core ideas have been around for some time
 - Build lifelong personal relationships with customers
 - Treat different customers differently
- Recent developments in technology have raised the level of awareness and criticality of CRM in corporations

A well known example

The screenshot shows the Dell.com website interface. At the top, there is a navigation bar with links for 'About Dell', 'Contact', 'Search', 'Support', 'Refurbished Systems', 'Order Status', and 'My Cart'. The Dell logo is prominently displayed on the left. Below the logo, there is a yellow box with the text 'Buy Online or Call 1-877-887-3355'. The main navigation menu includes 'Computers', 'Software & Peripherals', 'Service & Support', and 'Learning Center'. The current page is titled 'INSPIRON™ 2100 DETAILS'. A sidebar on the left offers 'Purchase Assistance' with links for 'Monthly Purchase Plan', 'Tax & Shipping Info', 'Returns', 'Online Security', and 'Privacy Policy'. Below this, there is a section for 'Microsoft® Windows® XP' and a 'Compare Notebooks' link. The main content area features a laptop image, the product name 'Inspiron 2100', and the price 'From \$1,449'. It also lists special offers: 'FREE Ground (3-5 day) Shipping!' and 'FREE Memory Upgrade - Online Only!'. The Intel Inside Pentium III logo is present with a 'click here' link. At the bottom, there are two buttons: 'Customize & Price' (circled in red) and 'Recommended Systems'.

Dell.com About Dell Contact Search Support Refurbished Systems Order Status My Cart

DELL HOME & HOME OFFICE

Computers Software & Peripherals Service & Support Learning Center

Buy Online or Call
1-877-887-3355

Main | Desktops | Notebooks | Handhelds | Hot Deals!

INSPIRON™ 2100 DETAILS

Inspiron 2100 Special Offers - Limited time offers. Click links below for offer details.

- ▶ [FREE Ground \(3-5 day\) Shipping!](#)
- ▶ [FREE Memory Upgrade - Online Only!](#)

Inspiron 2100
From \$1,449

As low as \$43¹/45 pmts
No payment for 90 days
[\(Click or scroll for details\)¹](#)


Learn More about Processor Performance
[click here](#)

[▶ Customize & Price](#) OR [▶ Recommended Systems](#)

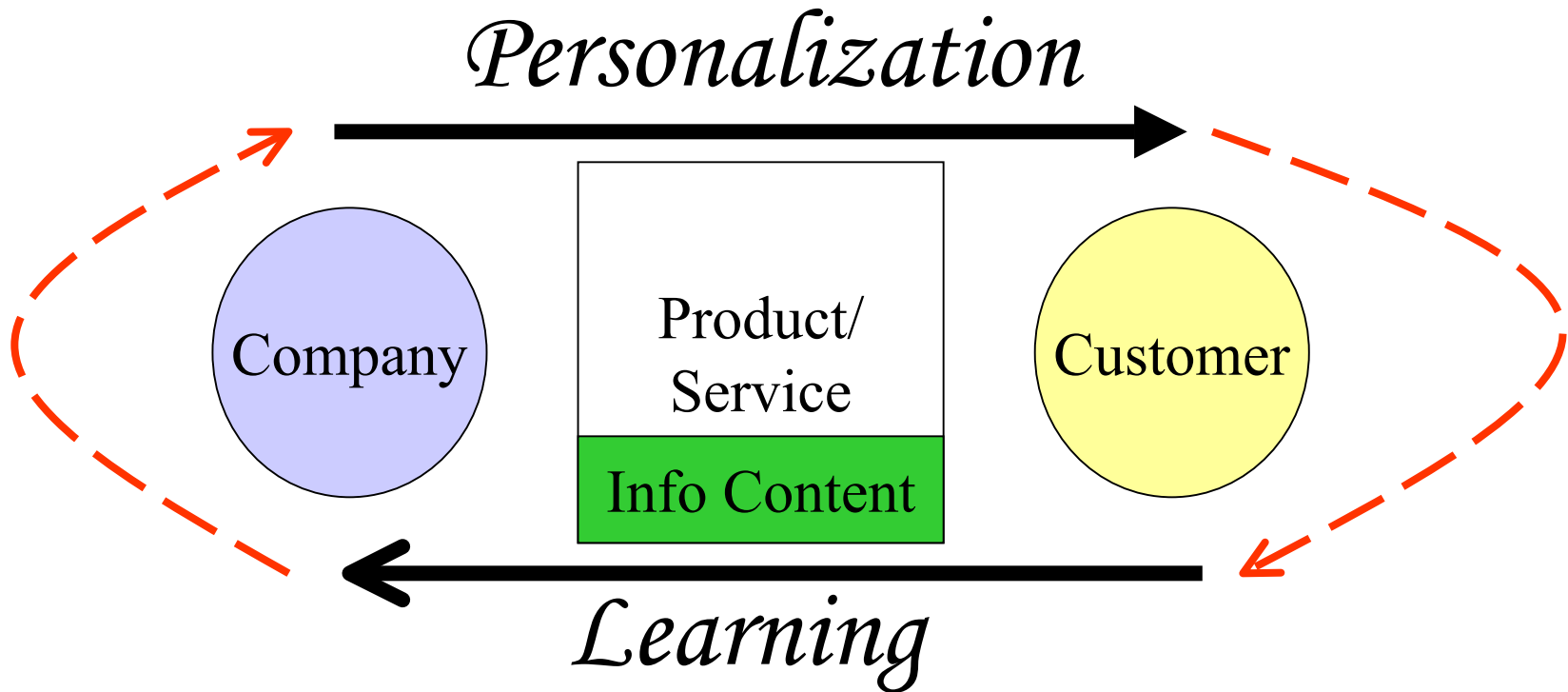
Microsoft® Windows® XP
Dell PCs with Windows® XP Home Edition!

Compare Notebooks
Show me a features comparison for all Inspiron Notebooks.

Another less obvious example

The screenshot displays the OTIS Elevator Company website. At the top, a navigation bar includes links for Home, Sitemap, Search, Contact OTIS, About OTIS, and Glossary. Below this is a large banner with the OTIS.com logo on the left and the OTIS Elevator Company name on the right, accompanied by an American flag graphic. A search bar is positioned to the right of the banner, containing the text 'U.S. / English' and a 'Go' button. On the left side, a vertical menu lists various services and products: News..., Elevator, Escalator, Maintenance, Modernization, Request for Information, Innovations, e*Service, e*Direct (with a sub-link for Plan Your ProjectSM), e*Display, Gen2TM, my OTIS, Log In, and register here. Below the menu is the 'OTIS.com Worldwide' section, featuring the Otis logo and the text 'A United Technologies Company'. The main content area is divided into three sections: 'Register Now' with an orange underline, 'Products' with a blue underline and a list of five categories (Elevator, Escalator, Shuttle Systems, Maintenance, Modernization) each with a representative image, and 'The Next Level' with a blue underline and a list of three categories (e*Service, e*Direct, User Registration) each with a representative image. A link 'Click here for more information' is located to the right of the 'The Next Level' section.

The virtuous cycle in one-to-one CRM



Key elements of traditional (one-to-one) CRM

- Identify your customers
- Differentiate your customers
- Interact with your customers
- Customize your products/services based upon customer needs

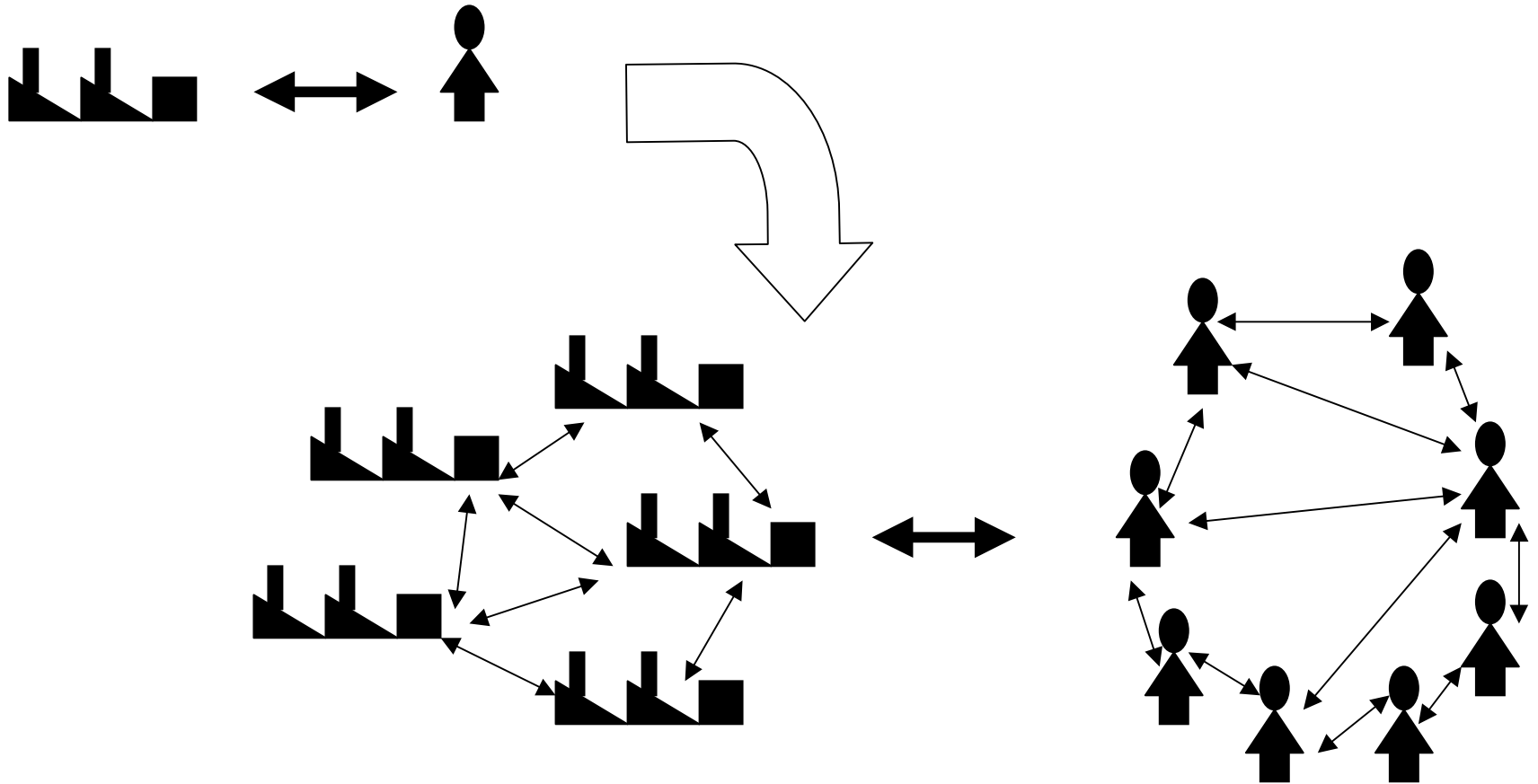
Technology is changing one-to-one CRM in many ways

- Firms can do one-to-one CRM for millions of customers
- Levels of personalization in products and services can be higher
- Customer experiences can be seamless across channels
- Greater integration across lifelong exchanges with customer can be achieved

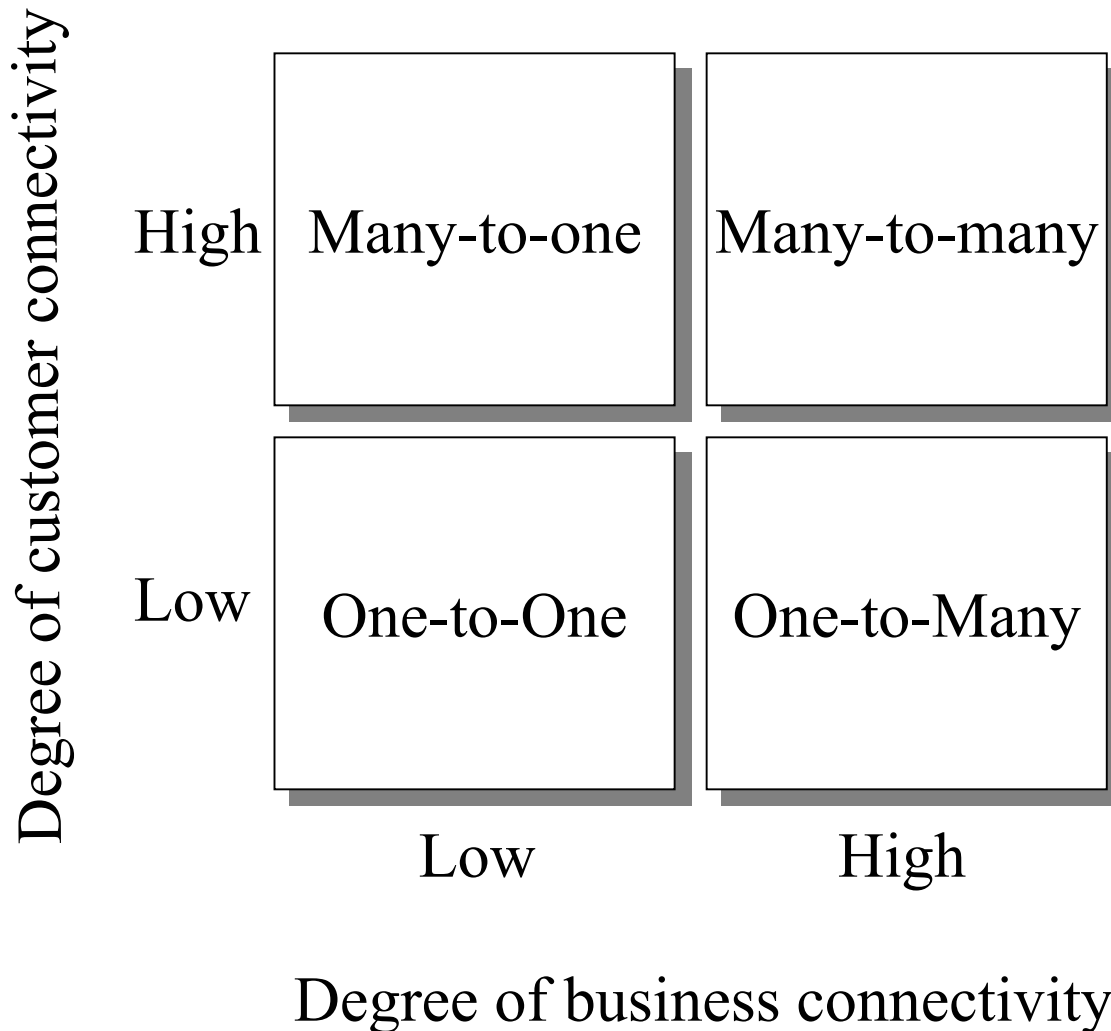
Important research questions are being raised....

- Under what circumstances does it make sense to customize on a one-to-one basis?
- How deep into your value chain can you integrate your customer?
- How do you handle the privacy issues?
- How to design the organization and its processes to support one-to-one CRM?
- But I would like to focus on other issues in this talk...

The impact of connectivity on CRM



A framework for analysis



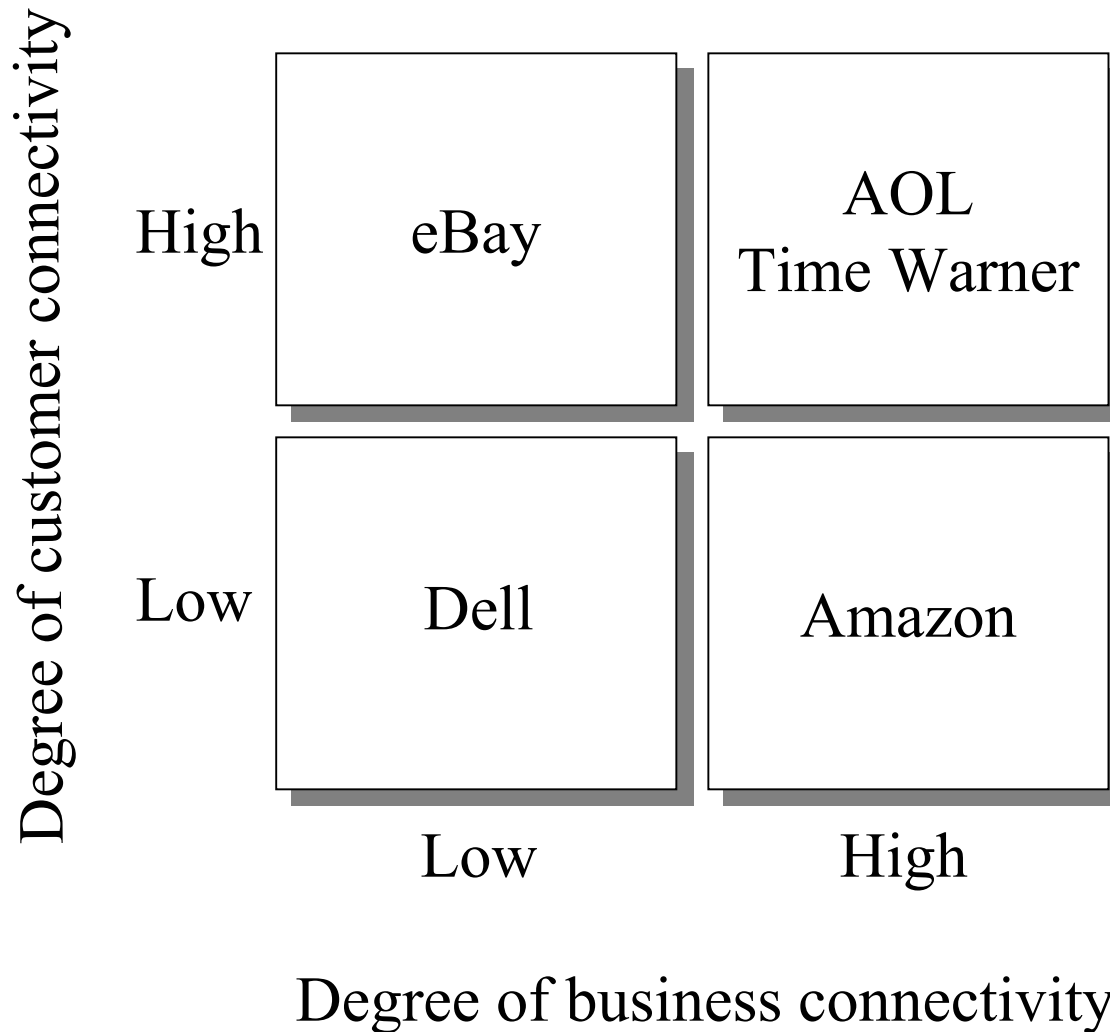
eBay: Many (C) to one (B)

- A highly successful and profitable company with more than 30m customers
- Customers trade with each other
- eBay provides the market – a “frictionless” platform – to help customers trade with each other
- “eBay people” have embraced the site as their own – creating a 24 hr a day collectors community online
- Their sense of community carries over from the virtual world into the real world

Amazon: Many (B) to one (C)

- A web of interconnected business partners creating the store with the “World’s biggest selection of products”
- More than 40 m customers served by the unique ecosystem of business partners – comprising thousands of zShops (and Associates)
- Seamless (across business ecosystem) shopping experience for customers
- Unique skills in technology to personalize the shopping experience for each individual customer

Mapping the examples



Rethinking customer connectivity

- Cross-customer connectivity is a relatively new concern for firms
- Cross-customer connectivity is set to explode with P2P technologies
- There are interesting properties of customer networking
 - Stickiness
 - Increasing returns

Returns on customer connectivity

- Generating returns on customer networking not easy for many firms
- When does it make sense to invest in customer networking?
 - The customer must perceive greater value to be part of the network than to be out of it
 - The firm must recognize additional value from serving the customer network (as opposed to serving individual customers)

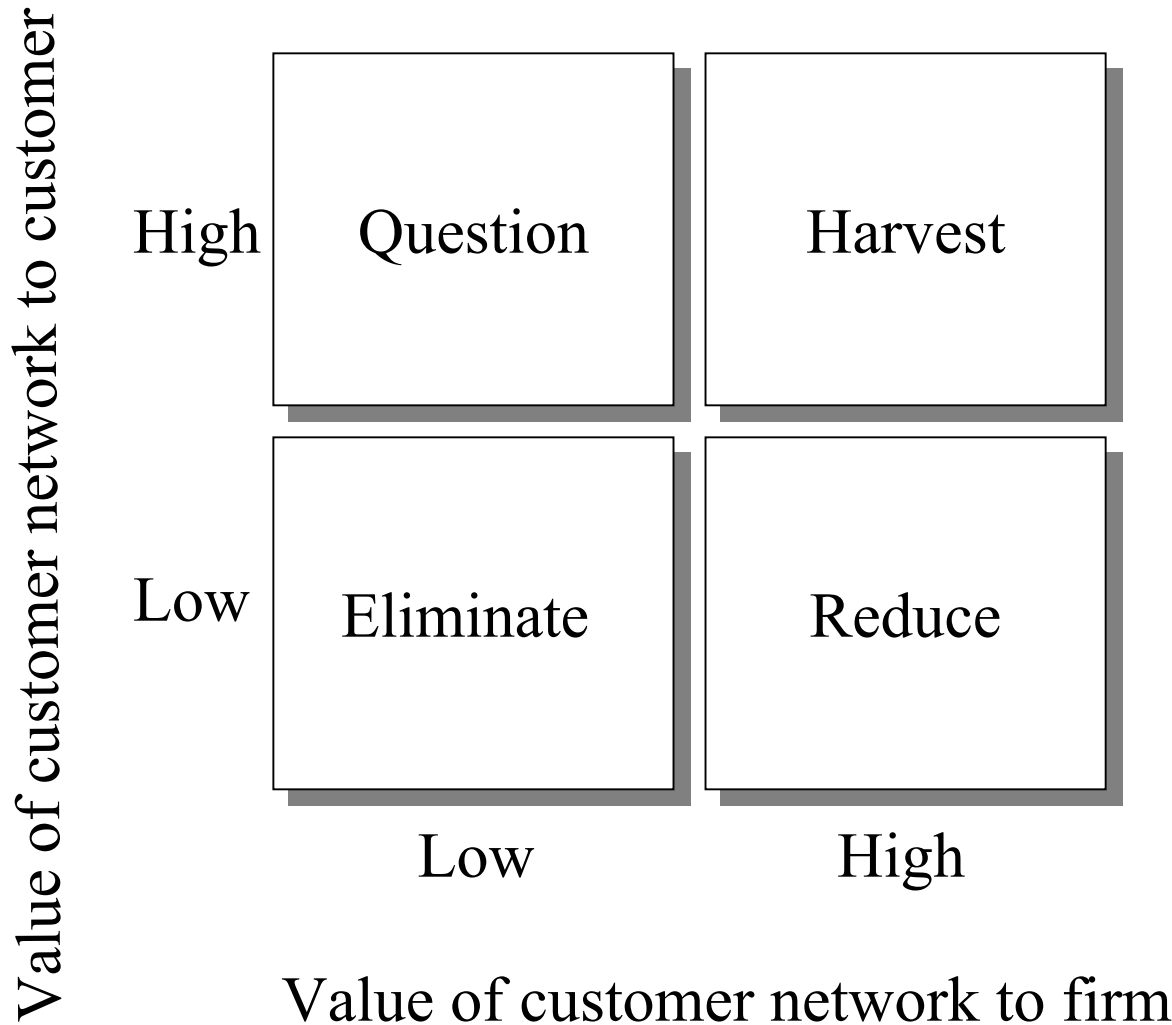
Value of the customer network to the customer

- Value of the customer network to the customer = $f(\text{tangible and intangible value that a customer derives from being part of the customer network})$
- Tangible value = value received from products and services bought from another customer
- Intangible value = value received from non-monetary exchanges (e.g., emails) with others
- Tangible value can be measured by the monetary value of the transactions across customers
- Intangible value is harder to measure – need to define proxy measures (time spent online?)

Value of the customer network to the firm

- In traditional CRM, lifetime value of a customer to a firm = discounted sum of lifetime purchases by the customer of the firm's products/services minus appropriate acquisition and servicing costs.
- Firm can generate value from interactions across customers (as in eBay, AOL)
- Value of the customer network to the firm = $f(\text{value accruing to the firm from tangible and intangible exchanges across customers})$

Strategies for thinking about customer connectivity



Rethinking business connectivity

- Business partnerships are not new.
- Traditionally partnerships have been common within the firms' existing supply chains.
- Today business connectivity cuts across supply chains to bring together a bundle of complementary goods and services
- Business connectivity has also become real-time, on-demand and much more dynamic

Investing in business connectivity

- Not an easy decision to extend the range of products and services beyond the core business of the firm
- When does it make sense to invest in business connectivity:
 - The firm should have a good access to customers and a good understanding of an entire range of customer needs.
 - It should be easy to aggregate products and services from partner firms into the right bundles for the right customer

Firm's share of total customer

- Defined as the ratio between the (estimated lifetime value of the customer to the firm) and the (**total** estimated potential lifetime value of the customer)
- Lifetime value of the customer to the firm is the discounted revenue stream of all products bought by the customer from the firm (minus costs)
- Total estimated potential lifetime value of the customer is the discounted revenue stream of **all** customer spending on **all** products from **all** firms (minus costs)

A simple example

Category of Product/Service

Financial Services

Firm A: \$300

Firm B: \$100

Healthcare Services:

Firm C: \$300

Household items:

Firm D: \$100

Firm E: \$100

Firm F: \$100

Total for all categories: \$1000

Computation of Traditional Share of Customer

For Firm A: Share of Customer = $\$300/\$400 = 0.75$

For Firm C: Share of Customer = $\$300/\$300 = 1.00$

For Firm E: Share of Customer = $\$100/\$300 = 0.33$

Computation of Share of Total Customer

For Firm A: Share of Total Customer = $\$300/\$1000 = 0.30$

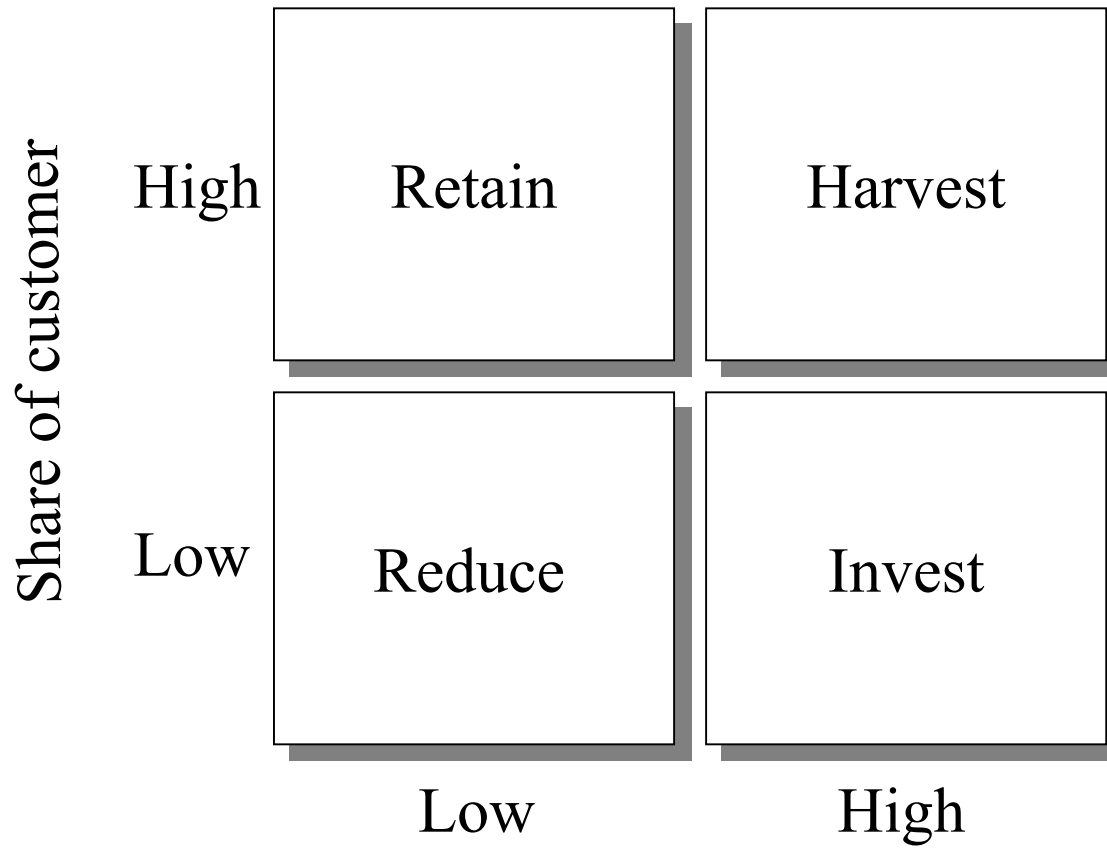
For Firm C: Share of Total Customer = $\$300/\$1000 = 0.30$

For Firm E: Share of Total Customer = $\$100/\$1000 = 0.10$

Value of the business network to the firm

- Traditional computations of the lifetime value of customers to a firm assumes that the consumption of products from the firm is “independent” of the consumption of products from other companies
- However there can be interactions between the two consumption streams when the two firms are members of the same business network
- Value of the business network to the firm is the discounted stream of revenues generated by the sale of discrete or aggregated products or services from other members of the business network minus the relevant service costs

Strategies for thinking about business connectivity



Value of business network to firm

A managerial action agenda

- Step one: excel in traditional one-to-one CRM
- Step two: observe the patterns of interactions in your customer networks – ask the questions:
 - Can my customers add value to each other?
 - Can I add value to their interactions?
- Step three: think whether it makes sense to try to expand your share of total customer. It is important to decide how far outside your core business you wish to venture.
- Step four: ask what value can you add to your business partners

Conclusion

- CRM in a networked world is going to become more important in the years to come.
- To a large extent, it is virgin territory for research – little prior work and many open research issues and questions remain. For example,
 - Theoretical modeling of the constructs
 - Empirical support (or lack thereof) for the constructs
 - Definition of the appropriate metrics
- I will gladly send you our paper on the research if you send me an email:

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