

1.7: Customer Relationship Management (CRM)

Learning Objectives

By the end of this section, you will be able to:

- Define customer relationship management (CRM).
- Describe the impact of CRM on customer loyalty and retention.
- Explain how CRM builds customer equity.

The Impact of CRM on Customer Loyalty and Retention

In the final analysis, companies want to accomplish two things: improve customer service relationships and improve customer retention. Retaining a loyal customer is typically easier and less expensive than acquiring a new one. One way to accomplish this is through customer relationship management (CRM), which is the means through which companies track, manage, and analyze customer interactions (Hashemi-Pour & Chai, n.d.).

Several CRM software systems are available in the marketplace, and most accomplish the same thing: track and work with data about customers. For example, they link and analyze customer contact information. They store and track contact with company representatives, such as phone calls, emails, live chat conversations, service requests, purchases, and returns. One good example of CRM software is Salesforce, the market leader for CRM software in North America, Western Europe, Latin America, and the Asia-Pacific region (Salesforce, 2021).

There are many types of CRM software; however, most CRM software focuses primarily on one of the following major categories:

- **Operational.** Operational CRM software deals with three types of operations: marketing, sales, and service automation. Operational CRM software is intended to assist businesses in automating how they approach leads and potential customers to convert those potential customers into actual customers (Bajpai, 2020).
- **Analytical.** Analytical CRM software is all about data management and analysis. The software is designed to collect, organize, and analyze the inputted data, providing management with insights needed to better understand market trends, understand customer needs and wants, and make data-driven strategic decisions (Bajpai, 2020).
- **Collaborative.** No business functions on an island. When businesses share customer data with one another, they gain insights and additional perspectives on customer behavior that is mutually beneficial. This collaboration allows each company to obtain information it would not otherwise have access to (Bajpai, 2020).

Before we explore how CRM impacts customer loyalty and retention, it's probably a good time for a few definitions. Customer loyalty is an ongoing positive relationship between a customer and a business. Customer loyalty is at the crux of repeat purchases of your product over those of your competitors. One common way to accomplish this is to offer reward/loyalty cards. For example, you may have a frequent flyer card from an airline, a loyalty card from Starbucks, or a retailer like Designer Shoe Warehouse (DSW) that rewards VIP customers with points for each purchase.

A closely related concept, customer retention, refers to a company's ability to transform new customers into returning customers. In its simplest terms, it's how you keep your customers coming back for more. Customer retention aims to reduce the number of customer defections, or those who buy your product at least once and then not again.

How does CRM impact customer loyalty and retention? Let's take a look at some of the ways Commerce CRM (2020) accomplishes this:

- **Leveraging Customer Data.** With CRM, a business can gather data on its existing and prospective customers to make their experience more positive. For example, you can keep track of important dates such as customer birthdays or purchase anniversaries, and CRM software can send automatic emails to them with coupons or other incentives.
- **Enhanced Customer Communications.** CRM software can be programmed to automatically send thank-you notes to customers, newsletters regarding new products, and customer satisfaction surveys or polls that enable you to glean more insight into your customers' levels of satisfaction with your product or service.
- **Ascertaining Customer Needs.** Fostering customer loyalty begins with understanding what your customers want and need. An effective CRM program can track customers' purchase history, habits, preferences, and even web and email interaction. From this information, you can gain valuable insights that will help you develop targeted marketing strategies.

- **Gathering Feedback.** We'd previously mentioned distributing customer surveys using your CRM software. This will provide you with valuable feedback not only about customers' perceptions of your product or service but also about their customer experiences. Have you ever received a message from Amazon after an online purchase, asking if you'd review the item you purchased? That's likely the result of an effective CRM system.
- **Managing Customer Loyalty Programs.** CRM software can help you identify prospective loyalty program members and track member rewards. Loyalty programs reward members for purchases and have been shown to increase customer retention. For example, according to research, approximately 84% of customers indicate that loyalty programs are an incentive to remain with a brand, and 66% report that the ability to earn rewards actually alters their spending behavior (Peacock, 2022).

The Role of CRM in Building Customer Equity

We have already talked about customer equity—the potential profit a company earns from all of its customers, both current and potential—and customer equity is a core CRM benchmark. CRM isn't a one-way communication street to customers. It's a two-way street allowing customers to define and shape offerings to address their requirements. This paves the way for open, honest dialogue that can ultimately benefit customers, thus resulting in higher customer equity.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Customer relationship management is accomplished by all of the following EXCEPT _____.

- a. establishing and tracking customer interactions
- b. finding ways of improving customer satisfaction from prior customer experiences
- c. communicating with customers in a personalized way
- d. offering the lowest price of all the companies on the market

2.

What is the process of managing customer information to maximize brand loyalty?

- a. Marketing
- b. Customer relationship management
- c. Consumer retention management
- d. Branding

3.

An ongoing positive relationship between a customer and a business is known as _____.

- a. customer equity
- b. customer loyalty
- c. customer retention
- d. customer lifetime value (CLV)

4.

Which type of customer relationship management (CRM) system would pool data from outside companies and organizations to create even better experiences for their customers?

- a. Customer loyalty programs
- b. Operational CRM
- c. Analytical CRM
- d. Collaborative CRM

5.

A program that offers discounts and special incentives designed to attract and retain customers is called a _____.

- a. customer loyalty program

- b. sweepstakes
- c. discount plan
- d. CRM software

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