Chapter VI

Factors Affecting Design Decisions for Customer Relationship Management Data

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Abstract

Customer relationship management (CRM) is a strategy that integrates concepts of knowledge management, data mining, and data warehousing in order to support an organization’s decision-making process to retain long-term and profitable relationships with its customers. Key factors for successfully implementing CRM (e.g., data quality issues, organizational readiness, customer strategies, selection of appropriate KPIs, and the design of the data warehouse model) are discussed with the main thrust of the chapter focusing on CRM analyses and the impact of those analyses on CRM data warehousing design decisions. This chapter then presents a robust multidimensional starter model that supports CRM analyses. Additional research contributions include the introduction of two new measures, percent success ratio and CRM suitability ratio by which CRM models can be evaluated, the identification/classification of CRM queries, and a preliminary heuristic for designing data warehouses to support CRM analyses.

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It is far more expensive for companies to acquire new customers than it is to retain existing customers. In fact, acquiring new customers can cost five times more than it costs to retain current customers (Massey, Montoya-Weiss, & Holcom, 2001). Furthermore, according to Winer (2001), repeat customers can generate more than twice as much gross income as new customers. Companies have realized that instead of treating all customers equally, it is more effective to invest in customers that are valuable or potentially valuable, while limiting their investments in non-valuable customers (that is, not all relationships are profitable or desirable). As a result of these types of findings as well as the fact that customers want to be served according to their individual and unique needs, companies need to develop and manage their relationships with their customers such that the relationships are long-term and profitable. Therefore, companies are turning to customer relationship management (CRM) techniques and CRM-supported technologies.

By utilizing a data warehouse, companies can make decisions about customer-specific strategies such as customer profiling, customer segmentation, and cross-selling analysis. For example, a company can use a data warehouse to determine its customers’ historic and future values and to segment its customer base. Table 1 shows four quadrants of customer segmentation: (1) customers that should be eliminated (that is, they cost more than what they generate in revenues); (2) customers with whom the relationship should be re-engineered (that is, those that have the potential to be valuable, but may require the company’s encouragement, cooperation, and/or management); (3) customers that the company should engage; and (4) customers in which the company should invest (Buttle, 1999; Verhoef & Donkers, 2001).

The company could then use the corresponding strategies, as depicted in Table 2, to manage the customer relationships. Table 1 and Table 2 are only examples of the types of segmentation that can be performed with a data warehouse. However, if used, a word of caution should be taken before categorizing a customer into Segment I because that segment can be further segmented into (a) those customers that serve as benchmarks for more valuable customers, (b) those customers that provide the company with ideas for product improvements or efficiency improvements, and (c) those customers that do not have any value to the company.

It is important to point out that customer segmentation can be further complicated by the concept of extended households. The term extended household refers to the relationship that exists between companies (e.g., parent company and subsidiary). The analysis of the relationships that exist between customers (that is, lines of potential customer influence) is known as household analysis. It is important to understand and manage extended households because a company’s decision to treat a member of one segment potentially could have a negative impact on a related customer. For example, if a customer is in a non-profitable segment, then the company may...
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