The Customer Relationship Management Process
The Supply Chain Management Processes

Information Flow

Tier 2 Supplier ➔ Tier 1 Supplier ➔ Manufacturer ➔ Customer ➔ Consumer/End user

Product Flow:
- Purchasing
- Logistics
- Marketing
- Production
- R&D
- Finance

Customer Relationship Management:
- Supplier Relationship Management
- Customer Service Management
- Demand Management
- Order Fulfillment
- Manufacturing Flow Management
- Product Development and Commercialization
- Returns Management

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Customer relationship management provides the structure for how relationships with customers will be developed and maintained.
Why Is It Important?

- Customer retention
- Competitive intensity
- Customer selectivity
- Cost efficiency

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Benefits of CRM

• It can increase customer loyalty by providing customized products and services, as appropriate.

• It can have a significant impact on the bottom-line through:
  • Increased sales
  • Improved plant productivity
  • Reduced customer service costs
  • Improved asset utilization

• It provides the critical link with the customers in the supply chain.
Customer Selectivity vs. Customer Retention

Retention Zone

Selectivity Zone

Subsidized Customers

Profit Contribution

Customers

Profit

$
CRM Benefits the Customer

Customers want to reduce the number of “market choices”

*because*

• too many market choices requires a high investment of money, time and effort

*and*

• customers want to reduce the risk due to uncertainty of outcomes - lack of trust
The Critical Supply Chain Management Linkages

Supply Chain Performance = Increase in Profit for A, B, C, and D
Align Functional Expertise

Customer Resources

Category Manager  ⇔  Sales
Merchandising      ⇔  Marketing
Logistics          ⇔  Logistics
Accounts Payable   ⇔  Accounts Receivable
Etc...             ⇔  Etc...

Manufacturer Resources
Required Behaviors for the Customer Relationship Management Process

Customer relationships are managed by customer teams which negotiate mutually beneficial product / service agreements with large, strategically significant customers.

- Customer teams develop and implement customer partnering programs.
- Product and service agreements are established.
- New customer interfaces are used to better predict customer demand and improve the way customers are serviced.
- Teams identify and eliminate sources of production variability.
- Key performance evaluation criteria (both company performance and customer account profitability) are used to measure results.
The Strategic CRM Process

Process Interfaces
- Customer Service Management
- Demand Management
- Order Fulfillment
- Manufacturing Flow Management
- Supplier Relationship Management
- Product Development & Commercialization
- Returns Management

Strategic Sub-Processes
1. Review Corporate and Marketing Strategy
   - Identify customer segments that are key to the organization’s success now and in the future
   - Profitability
   - Growth
   - Volume
   - Competitive positioning
   - Margin
   - Technology
   - Resources
   - Compatibility
   - Trade channel
   - Buying Behavior
2. Identify Criteria for Categorizing Customers
   - Outline metrics of interest
   - Market share goals/penetration
   - Consider revenue/cost implications of the various differentiation alternatives
   - Select boundaries for degree of differentiation
   - Outline options for sharing the benefits of process improvement
3. Provide Guidelines for the Degree of Differentiation in the Product/Service Agreement
   - Outline metrics of interest
   - Relate metrics to the customer’s impact on profitability and profitability for the customer

Activities
- Develop Framework of Metrics

Strategic Sub-Process #1

Review Corporate and Marketing Strategy

• Directional statements – Commander’s intent
  ○ Market to serve and customer segments to target
  ○ Positioning
  ○ Channels to reach the market
  ○ Scale and scope of activities
Strategic Sub-Process #2

Identify Criteria for Categorizing Customers

• Identify key criteria, which might include:
  • Profitability
  • Growth
  • Volume
  • Competitive positioning
  • Market knowledge
  • Market share goals/penetration
  • Margin
  • Technology
  • Resources
  • Compatibility
  • Trade channel
  • Buying behavior
Customer Profitability Reports

• The best overall measure of performance for the CRM process is the profitability of customers and customer segments over time.

• It is important to use a contribution approach, i.e. revenue minus avoidable costs.

• Using a full-cost approach can lead to the wrong decisions.

• Be sure to assign only variable costs, i.e. those costs that will disappear if the customer (or customer segment) disappears.
Provide Guidelines for the Degree of Differentiation in the Product and Service Agreement

- Consider revenue/cost implications of the various differentiation alternatives.

- Select boundaries for degree of differentiation.
Strategic Sub-Process #4

Develop Framework of Metrics

• Outline metrics of interest

• Relate metrics to the customer’s impact on profitability and profitability for the customer.
How CRM Affects EVA®

- Strengthen relationships with profitable customers
- Sell higher margin products
- Improve "share of customer"
- Improve mix (e.g. align services and costs to serve)

- Improve plant productivity
- Targeted marketing
- Improve trade spending
- Eliminate or reduce services provided to low-profit customers
- Optimize physical network/facilities
- Leverage new or alternative distribution channels
- Reduce customer service & order management costs
- Reduce HR costs / improve effectiveness
- Reduce overhead / management / admin. costs

- Improve demand planning
- Reduce safety stock
- Make to order, mass customization of inventories

- Reduce accounts receivable
- Improve asset utilization and rationalization
- Improve product development and asset investment
- Improve investment planning and deployment

ECONOMIC VALUE ADDED =

\[
\text{NET PROFIT} \times \frac{\text{SALES}}{\text{NET PROFIT MARGIN}} - \text{CGS} - \frac{\text{TOTAL EXPENSES}}{\text{NET PROFIT}} - \text{CAPITAL CHARGE}
\]

\[
\text{NET PROFIT} = \frac{\text{GROSS MARGIN} \times \text{SALES}}{\text{CGS}}
\]

\[
\text{GROSS MARGIN} = \frac{\text{SALES}}{\text{TOTAL EXPENSES}}
\]

\[
\text{CAPITAL CHARGE} = \left( \frac{\text{TOTAL ASSETS}}{\text{CURRENT ASSETS} + \text{FIXED ASSETS} + \text{OTHER CURRENT ASSETS}} \right) \times \text{COST OF CAPITAL}
\]

Strategic Sub-Process #5

Develop Guidelines for Sharing Process Improvement Benefits with Customers

• Outline options for sharing the benefits of process improvements.
Conclusions

• Customer relationship management provides the structure for how relationships with customers are developed and maintained.

• Along with supplier relationship management, CRM provides the critical linkages to connect firms in the supply chain.

• It is critical to have the capability to measure the impact of the process on revenues and costs for both the focal firm and the customers.

• Both risks and rewards should be shared so that all parties are interested in achieving the most efficient and effective supply chain.