

Customer Relationship Management
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Lecture - 16
Economics of CRM (Contd.)

Hello everybody, welcome to the NPTEL swayam course on Customer Relationship Management. This is Dr. Swagato Chatterjee from VGSOM IIT Kharagpur, who is taking this course for you.

We are in Week-3 and we are discussing the Economics of CRM and basically, in the last class we have discussed about customer lifetime value calculation. And, we have discussed about customer lifetime value calculation both in the context of B2B and B2C. B2B means business to business market and B2C means business to consumer market.

So, in the business to business market, one company actually tries to sell the products to another company which product or services is generally again re-used to create another solution which will be further sold to somebody else. So, that kind of a relationship is basically B2B relationship where let's say, a company trying to sell computers to another company, one bulk set of computers to another company. So, in the last example we have talked about Buford Electronics.

So, Buford Electronics is a electronics selling company, which majorly focuses on B2Belectronics sales. And, they had both large companies and small companies and they wanted to decide that which one they will choose. So, some strategic decision about the selling behavior or targeting behavior was found out using the customer lifetime value. On the other hand, in the B2C sector: when we talk about B2Csector, we have given a sample example of a resort.

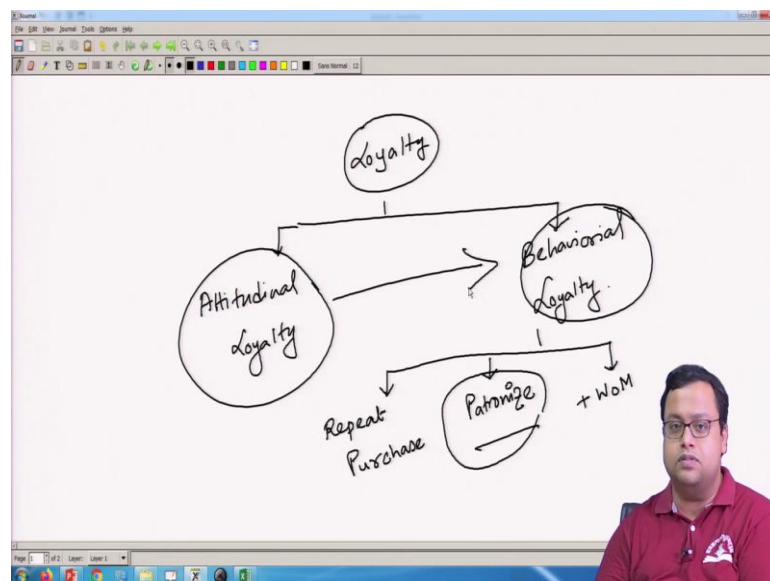
Basically, B2C is what? When a business is trying to target a customer and its an end customer, their customer does not consume anything and then again try to sell it sell that particular product to anybody. Generally that does not happen. It happens in case of durable products where the products after a certain period of time the customer might

want to sell it to a used market, resell market. But, in most of the context in a B2C the ultimate consumption consumer is somebody whom the products are sold.

So, resort is such kind of a situation where you are selling the, you are renting out basically not selling, renting out the rooms and selling certain kind of foods and beverages and other services to the customers. And customers actually upsell; so, you can you have an opportunity to upsell with the customers, you have opportunity to cross sell with the customers and you can also generate new customers from a existing customer base using referrals.

So, these are some of the basic thing that we are saying. Now, see at the end of the day we are trying to talk about customer loyalty in case of, in case of customer relationship management. One of the major driver of long customer relationship management, long customer relationship is customer loyalty. Now, that loyalty has three parts: we call it attitudinal loyalty or I will just write it down.

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So basically, loyalty majorly can be divided into two groups: one is called Attitudinal Loyalty and another is called Behavioral Loyalty. So, what is attitudinal loyalty? When the customers attitude is towards, has a positive attitude towards this particular service provider or a product seller then that is called attitudinal loyalty.

On the other hand, when the customer has, when that particular attitude — attitude in this case we are saying that whether it is positive attitude or negative attitude. Positive attitude means the customer likes the product or service of the particular seller and negative attitude means he does not like it.

So, when you have that kind of a thing which, only that kind of a thing, that is called attitudinal loyalty. When that translates to a behavior that is called behavioral loyalty. So, behavioral loyalty has again three types.

So, there can be loyalty which is non-attitudinal also, for example, let's say, if you have a switching barrier; you do not have any other persons selling this particular product that is why you are going to this person. So, then you do not have an attitudinal loyalty. You have a loyalty, but you do not, that loyalty is not attitudinal, that loyalty is behavioral because you do not have any other option other than going to him.

You are you are not showing loyalty to this guy just because, his quality of product and etcetera is good. You are showing you are showing loyalty to this guy because the products and services are not available in the market or the cost of getting the product and services from another service provider is very high which creates a problem.

So, when that gets a problem then that is that kind of loyalty is not an attitudinal loyalty, but still you are showing, behaviorally connected to this particular service provider or products seller, that is why it is a behavioral loyalty.

Now, behavioral loyalty are of three types: one is repeat purchase. So, you are doing repeat purchase that's why, repeat purchase, that is first one. The second one is basically patronization. So, you patronize this particular, what is patronize means and then its a positive word of mouth.

So, let me tell them what this what is patronize? Patronize means that even if — repeat purchase is straight forward; so, you repeatedly purchase from this particular service provider or the seller. So, you go you generally do up — so, all the upsell and cross-sell and repeat purchase comes into this thing.

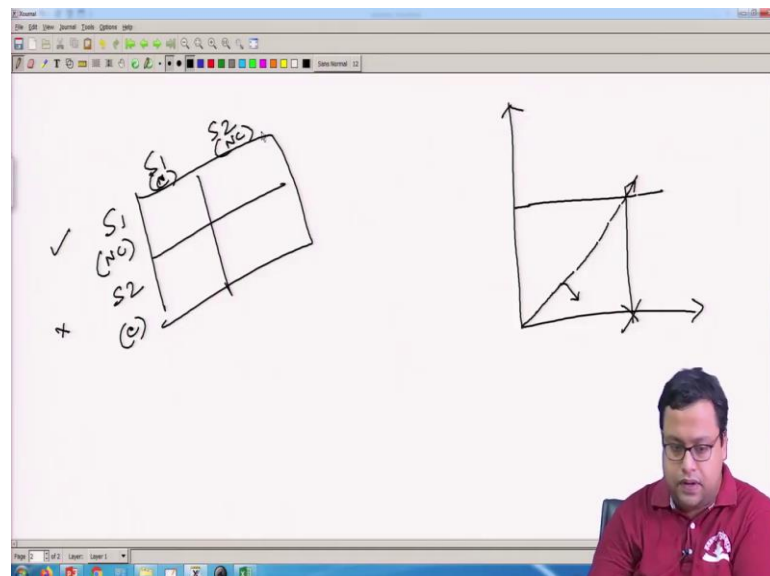
So, remember in the resort case we told that consecutively 5 years this guy will buy from you and his purchase will go up at a 10% level, each year it will be increase in a 10

percentage way. So, that is something called repeat purchase which is also one factor. Then what comes? You can also do cross-sell or upsell, increased purchase if you remember in the third, fourth column there was a — third fourth row there was increased purchase which is basically coming from cross-sell or upsell.

So, this cross-sell and upsell is also one type of behavior that we try to show. Now, in case of when attitudinal loyalty is not there generally, only behavioral loyalty is there just because there is no other service provided this upsell and cross-sell does not happen. Repeat purchases happen because you have don't have any choice for upsells and cross sells does not happen, but when do not happen. So, but when attitudinal loyalty is there all this different kind of purchase happens.

The second is patronize, this is something that comes that in the last class again we talked about that there will be a reduction of overheads or reduction of marketing costs. So, what is patronize? If you would understand these see, you have, you so that — so, it has been seen that you have you are let's say, connected with service provider 1. And, there is another service provider 2 whom you are you are connected with this and you are not connected with this.

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But what happens is this service provider 2 is going on giving me various kinds of promotions, promotions, promotions and, trying to poke you and after a time — so, first

promotion you don't take care of you don't, don't react to this promotion, second promotion you again don't react to the promotion.

After multiple rounds of promotions and you are non-reacting, there will be one time when you will be going on reacting to that particular promotion. So, we call it our, I would say, we try to constraint ourself and this constrainting ourselves from promotional campaigns actually is costly, its it creates a mental cost.

It you become so, it is like let's say, if I put every day in front of you, every day if I put a very good looking cake, very, very attractive cake and then you I say you don't eat. You are diabetic, don't eat, don't eat, don't eat, but I still keep you in it, keep it in front of you.

So, after multiple rounds, slowly in the first day you become restrained, in the second day you still show restrain. But, we all there is a psychological theory which says that we all has a upper limit of constraint. This much is my mental cognitive load, the limit of the cognitive load that I can manage.

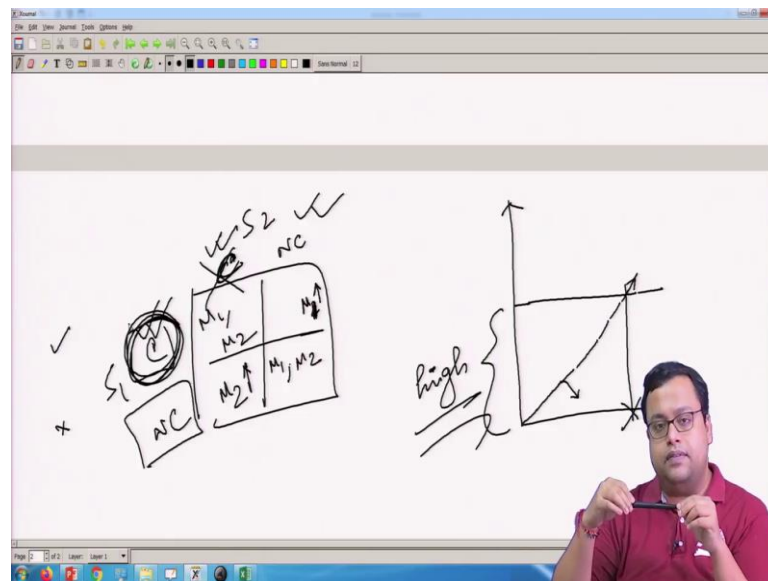
And, every time you give some amount of that, every time you show the amount of this cognitive load that I reach slowly goes up; the load in my mind goes on increasing, increasing, increasing. And, after one level there it will be crossing this limit and when I cross this limit at this point I will actually snap and I will go for eating that particular cake. And, often times what we have is that I have gone and two things: one is this eating behavior and another is probably the cognitive, what can reduce this cognitive load.

Let's say, you do something good, you go and do some philanthropy or you do and go and do something good for somebody else. That actually reduces your cognitive load in your mind. So, then you feel that I have done good job today then I don't have to keep this constraint.

So, these two things are basically a psychological thing. Similar thing happened here since service 1 and service provider 2 also. So, if service provider 2 keeps on giving you that kind of attractive campaigns, you can constraint your yourself for some time. And, how much will be that limit depends on how much loyal you are, depends on how much loyal you are.

But when you, so, after a certain limit irrespective of your loyalty it will actually break. So, then what happens is: then the strategy of S1 is: if S2 is giving certain campaign, if it is giving campaign and in the time period 1 this guy is not given campaign, the decision comes here is what should I do? So, should I give no campaign? So, what should I do? Basically, that kind of a decision comes in. Then if S1; so, I will just draw this is actually the wrong this thing, I will draw once more.

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So, the decision comes up like this: and if S1 gives campaign versus no campaign and S2 gives campaign versus no campaign who becomes the winner? When both of them does not give campaign, market share remains M1 and M2 whatever be the case. And one of them given campaign again M1 and M2, but here the M2 goes up and here when sorry when S1 M1 goes up when S1 is giving the campaign and S2 is not giving the campaign and here M2 goes up. So, by chance if this guy is giving certain campaigns you have to give campaign.

So, that kind of a game theory — game theoretic playing always goes on. Now, why I am bringing in this kind of concepts here is: that patronization is a behavior of customer loyalty where we try to not react to this campaign of S2; that means, this is very high. So, customer loyalty is some one of the outcome of customer loyalty is a very high limit of reaction to the constraint — reaction to the campaigns of the alternative service providers or alternative products sellers.

So, you do not — even if you get very lucrative offers from the your competitor, you do not take that lucrative offers and you stick back to your old service provider or old product seller that is called patronization, that is called loyalty.

So, that is a behavioral loyalty and the third type of behavioral loyalty and this comes when, that happens when this thing happens when you are highly patronizing. What happens is that as I told that you have to give campaign. If S2 has also given campaign, if S2 is giving campaign then to fight with him you have to give campaign here, right that I told.

But, if the patronization is pretty high, the cost that you will incur in this campaigning will be much lower. That is the reduction of overhead cost or reduction of marketing costs. The costs that you incur in these campaigns to counter the alternative — to counter the campaigns that are provided by the competitors, that cost of that campaign will be coming down. So, that is why your marketing expenditure and your overheads expenditure will be coming down; so, that is something that is also we did.

And, then there was another factor that we have introduced in that column which was in the rows, if you remember. There was something called referrals. Now what is referrals? Referrals is basically an output of positive word of mouth that I have written there which is also one type of behavioral loyalty. Where you not only stick to this customer — stick to the service provider, you not only buy more from this service provider, but you also talk good about this service provider.

So, you want other people also to come and buy from this particular service provider or a product seller. When you do that lots of other people comes in and some of them let's, 100 people coming in and 80 people out of them becomes loyal and that increases the customer base.

So, obviously, all of these things attitudinal loyalty basically leads to behavioral loyalty that is true. But or sometimes there can situations where behavioral loyalty is there without attitudinal loyalty also the one that I have given example. Let's say, in a very remote place of India you went and went and working.

And, in that particular place there is no other mobile connection or no other bank other than SBI bank or no other mobile connection other than BSNL. So, then even if the

service of BSNL or the service of SBI is not so much good in that particular zone, you still stick back to SBI, you still stick back to BSNL.

So, for very long time most of the people who are doing their job in IIT Kharagpur, IIT Kharagpur is a very big campus and there, so the mobile network connectivity inside the campus was not so good. And, the only one only service provider who was allowed to have a tower inside the campus was BSNL.

So, that is why BSNL is the only one who could reach give you certain tower in various corners of the campus. Now, the problem is that, if that happens even if you do not like BSNL many many professors and other residents in this particular campus for quite some time were using BSNL.

Even now they use BSNL, but now situations have changed. But, I am talking about sometime around 2009, 2010 and at that time, around at least 10 years back if I can remember properly that these people, the BSNL was the only seller only service provided in this particular place.

And, then at that time Vodafone and Airtel was slowly coming into the market and because lots of students were getting their mobile phone. So, that is the time period when students were having their mobile phones, before that generally students did not use to have their own mobile phones. So, that is the first time period when students were having their mobile phone. And many companies try to lure this particular students, because in the long run the customer lifetime value of this particular students will be very good.

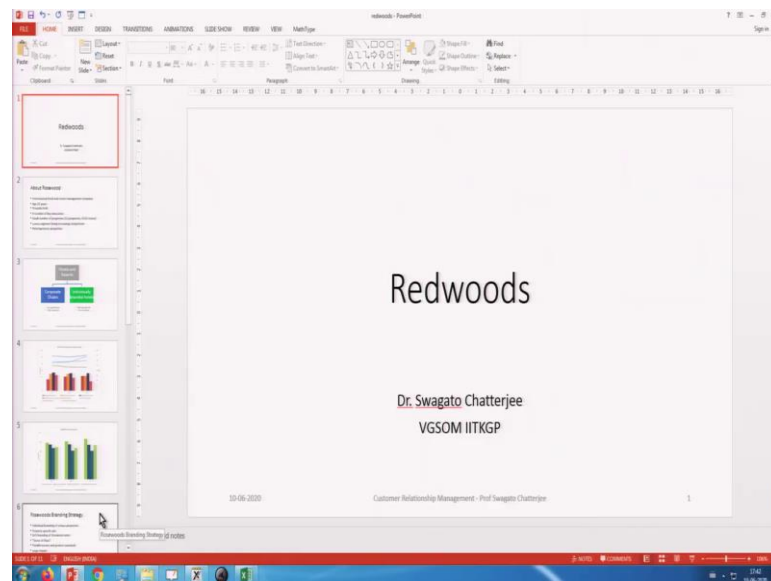
Because they are all IIT students and when they become professionals and etcetera, the consumption of telephonic, I would say tele products will be much higher for this group of people than other group of people.

So, keeping that in mind they wanted to lure these student groups and I think that they did for many other good technology schools. And, and that is how all this other service provider like Vodafone, at that time it was Hutch and then Airtel came into this market of IIT Kharagpur.

So, all I am trying to say is that in those kind of days before those kind of days, before 2009 it was not an attitudinal loyalty towards BSNL or SBI or somebody, it was a

behavioral loyalty because I did not have a choice. So, but their current situations when attitudinal loyalty also leads to behavioral loyalty and the examples that I have given. Now, in this particular: in the next the with this video and in the next video I will be discussing about a particular case called Redwoods and how Redwoods have taken into account this loyalty.

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And how that also is related to branding is something that I am going to discuss in this particular video. So, first thing that I want to discuss before I go into the maths part is what is branding?

So, this is basic classic branding problem and I want to give a brief about what is branding. So, branding is basically, a brand is a logo and name, jingle, a picture, even a face of somebody, anything any object that helps — that has multiple objectives that helps the customers to remember.

So, brand so that they recall at the right time the recall goes up. So, it helps the customers to remember about a particular product or a particular solution that is number 1. Number 2 is it reduces the information search cost; that means, if I know that this particular product is good and that comes in my mind very quickly then I will not search for a lot. Let's say, if I know that which airline should I go for when I want to go to Bangalore to Calcutta to Bangalore.

And, let's say, I have in my mind so, there is Indigo, there is SpiceJet, let's say, there is Vistara and Air India. So forth four are there in my mind. So, then even if there is AirAsia, even if there is somebody else I might not think about them because these 3-4 names are coming very prominently in my mind.

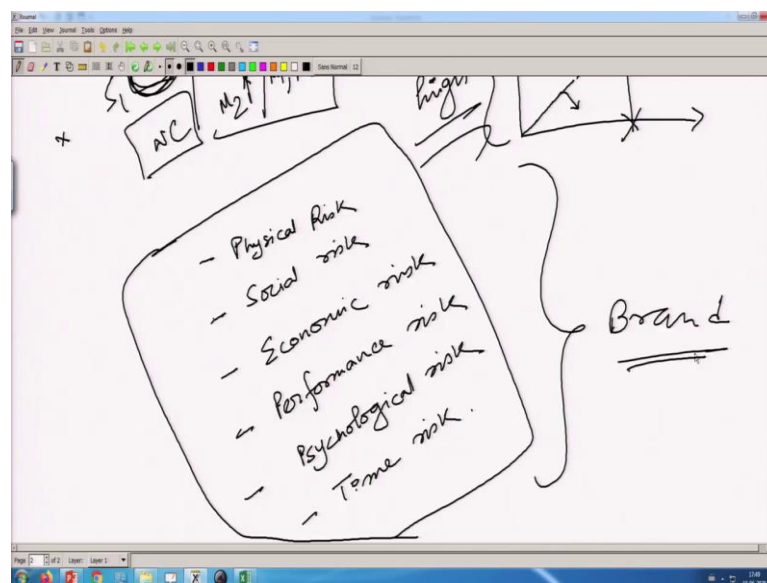
So, I will not go for search, I will go for searching for this particular things only. So, that or let's say, if I forget about this brand names atleast I know that Make My Trip is there, I go to Make My Trip and I can book or I can go to Goibibo I can book.

Then if I do if I have Make My Trip, Yatra, Goibibo in my mind, there might be a Trivago, there might be a Travelxp or somebody else whose brand name is not as strong as these three guys. I will not even think of them.

So, this is something, the brand recall also leads to reduction of information search which is a important factor when you talk about branding. So, information search reduction and another third thing that becomes important is basically risk perception reduction. So, any purchase that we do has certain kind of risks involved.

When consumer make a purchases, there are certain kind of risk involved and they are probably if you have heard there are 6 major types of risks when we make purchase.

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One is physical risk, social risk, economic risk, performance risk, and then psychological risk and time risk. If I am not wrong I have covered all the 6. So, all these are different

kind of purchase risks that mainly applicable to B2C, but also applicable to B2B in some of the cases.

For example, let's say, what is physical risk? Physical risk is if it's a, let's say, cream, if I put the cream on my face whether there will be some damage or if I have a medicine what will be the side effects. If I go consume certain products what will be the repercussion of this products.

So, that kind of risk is physical risk and we try to mitigate that by let's say, certain certifications that whether it is ISO certified or like whether it is properly tested for whether FSSAI is certified the particular or FDI is certified the medicine or FSSAI has certified the, F-S-S-A-I has certified the food product or not.

So, that comes with the physical risk whether the expiry date is written properly and whether it is within the expiry date. So, that is physical risk. Then what is social risk? Some products might you don't want to, want other people to know that you are using those kind of products.

For example often times for women probably let's say, even today in Indian country the sanitary napkins or products which are related to personal hygiene are generally has certain kind of social risk. People do not want to buy them from the medicine shop openly. So, those kind of products are having social risk.

Then what is economic risk? Economic risk is that you bought something, but then later you found out that particular product is available at a cheaper price in somewhere else. So, how will I know that the product that I am buying is not cheating me in terms of the money part? Probably the product is same, but he is not cheating me in the monetary part how will I know that.

So, that is that comes with economic risk. How will I know that there is a government subsidy is there, but the provider is not giving me that government subsidy. So, those kind of risks are economic risk. Performance risk is basically whether the product will work or not.

So, let's say, we bought a laptop, what is the probability that the laptop will get damaged within some time? So, often times we do not want to go for, so far for furnitures I have

personally experienced. For furniture there are products which are let's say, made of compressed wood or made of engineered wood.

So, there is a performance risk of those particular products and that performance risk was also associated with the economic risk. But whether this particular thing will be durable. I am buying a durable product it should remain for some time whether that will stay for sometime or not. And then, there will be associated economic risk for that as well. Then psychological risk, certain products that you when you buy them that gives you psychological boost up or sometimes it gives you psychological remaining factor.

For example let's say, if you buy — what kind of psychological boost up will you get if you have to buy Fair and Lovely or I would say any product which claims that it will make you fairer, that kind of products; will you it be a positive psychological boost or negative psychological boost? Depends on customer, it might have different impact on the customers mind.

So, those kind of risks are psychological risk and then the last one is time risk — that whether you will lose time. So, should I buy it from Amazon or should I buy it from Flipkart or should I buy it from my from the store, from our grocery store in the in the which is close by, which one should I buy?

Is also related to time risk that how much time I will spend and whether that will be in line or not. So, all these six different kinds of risks are, gets mitigated when you have a brand.

So, a brand's third job is to basically mitigate these risks and make sure that this risk does not become a very prominent a bigger factor. So, majorly service providers use this brand to do two things. One is reduction of risk, reduction of information search cost and reduction of the and the increase of brand recall in the correct permit.

Now, if that is something that brands try to do, any brand is trying to do then the next question is that what are the different strategies of branding that I can do? And, in this particular class I will be discussing about a specific type of branding strategy, we call it umbrella branding or brand extension strategy. So, and that is where this rose Rosewood case will also come up and how they have used the umbrella branding strategy to do something good for the market we will be discussing.

Now, what is umbrella branding? I will just define this umbrella branding and that is where I will leave in this particular video. So, what is umbrella branding? Umbrella branding is basically a branding strategy. First of all, there is something called brand extension where you have a same brand and you come up with multiple products with that particular brand.

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For example, you have Saffola Gold which is a oil and then you come up with Saffola Oats. So, Saffola Gold is a old oil which is known for its — for the quality, the health consciousness and etcetera it is known for that.

Saffola Heart was another product which is also an oil which were majorly focused on that this particular Saffola brand is related to healthiness, healthy lifestyle, pro-active lifestyle and etcetera. So, when that kind of a brand name is created, you know whenever you think about something which is proactive which is a food which will make you keep you healthy and which will not impact on your weight and blah blah blah, you would remember Saffola.

So, that is why you have to buy Saffola product, you if you have cholesterol or if you have diabetes or even if you do not have diabetes, if you want to be active and etcetera Saffola wants that you focus on Saffola. Now, what happens is when that kind of a brand name gets created, Saffola can come up with new brands like Saffola Oats. Saffola Oats

is exactly a brand extension which also talks about that whatever this oats is also something which is related to goodness greater to it is a good.

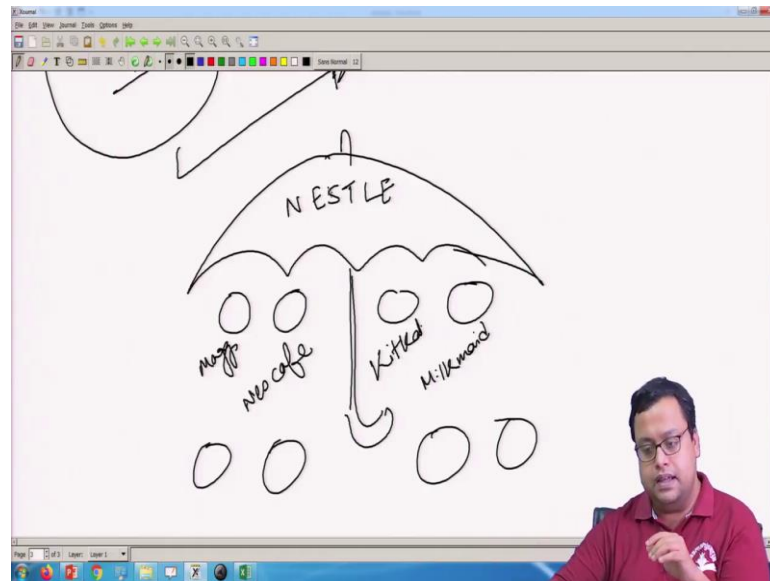
Many people consider it is a good option in terms of breakfast which can be consumed and you can, you will be still remain healthy rather than having paratha or puri which are full of oil and etcetera; you can have oats which is light. And, you can have it with milk, if it is a plain oats; if it is a masala oats you can make masala oats like Maggi or something. So, all are those kind of options are there and the Saffola brand name got extended.

We do similar kind of thing for other products also let's say, Kahaani and Kahaani 2, Kahaani is a movie, we the moment we remember Kahaani. Kahaani is a movie which is known for its for Vidya Balan and very good script and very I would say, very (Refer Time: 29:20), very good thriller movie and etcetera. So, and the climax is always at the end and some something like that, it is known for its thing.

Now, when you come up with Kahaani Kahaani 2, the customers will, whoever is the viewers will also go to that particular thing to buy; with having this in mind that I will be seeing a similar kind of...

So, you are basically setting a expectation by using the name Kahaani, same applies to here. We are setting an expectation by naming. Now, when these kind of things is done in a broad scale, we call it umbrella branding. So, what is umbrella branding? There are two types of umbrella banding that I will be focusing on.

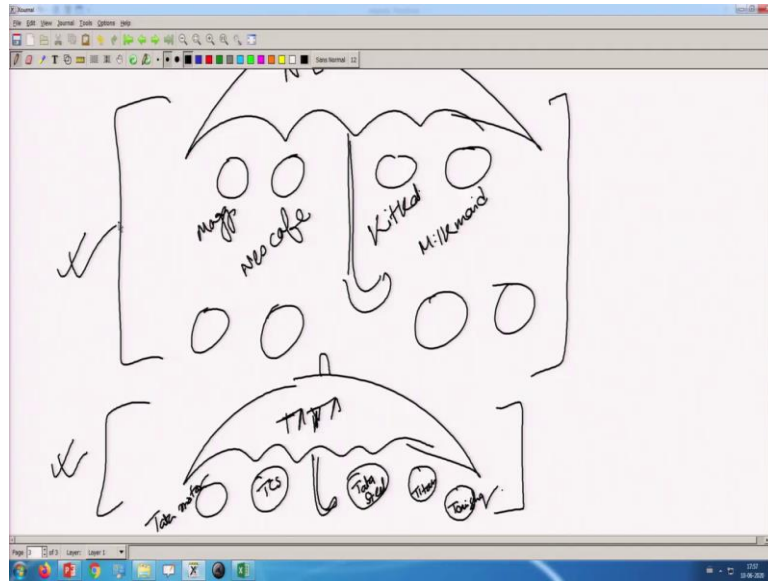
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So, umbrella branding means this is an umbrella, let's say, an umbrella under which this is a big brand and under which there are lots of small small people who live under this big brand. One classic example can be Nestle is the umbrella and Maggi is there, Nescafe is there, Nestle KitKat is there, Nestle Milkmaid is there and there are so many names there, so, many other names are there.

So, what happens is that when we think about Nestle, when we think about Nestle these particular things are coming up. All of these things and brands which are individually well known, but they come under the umbrella branding of Nestle.

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Another example of umbrella branding can be let's say, Virgin, you do not know about them in India; or let's say, Tata. if I just talk about Tata. And, then there is Tata Motors, there is TCS, there is let's say, Tata Steel, there is let's say, Titan and Tanishq probably.

Now, understand the difference between the previous one and this one; both are umbrella branding, both of these things are umbrella branding. Both want them to be connected with each other, but there in the previous one; Nestle, Maggi, Nescafe probably the, so, what there is a Cadbury of Nestle I forgot the name. So, all of them, Milkybar if I am not wrong.

So, KitKat, Milkybar, Milkmaid, Maggi, Nescafe each of them are separately themselves a brand. They don't actually, though it is written Nestle Maggi or Nestle Milkmaid, or Nestle KitKat, but they don't actually depend on Nestle. They depend on their own brand name.

KitKat has their own brand name, Maggi has its own brand name and it is known as Maggi. On the other hand, in this case other than Tanishq and Titan which are basically consumer products; other than them Tata Motors, Tata Steel, Tata Consultancy Services; everybody is taking help of the big name called Tata.

So, the there they both are umbrella branding, but both have certain strategic differences. And, when to apply what and how CLV can help you in decide that whether I will go for

this strategy or the below strategy is something that we will be going to discuss in the upcoming case. So, I am giving all the theoretical background that is required for the coming case. go to the case now.

Thank you very much, I will see you in the next video with the case discussion.