Customer Relationship Management

CRM in a Branded World

How CRM is used with FMCG

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1. Introduction

Customer Relations Management (CRM) is a business, marketing and communications maxim currently revolutionizing the company-customer relationship. It is a concept for managing customer relationships across the different points of customer contact. In essence, CRM is about retaining customers, capturing customer lifetime value, maximizing new business opportunities, and sustaining profitability. It is a business philosophy that is successfully implemented by installing and utilizing CRM technology and by developing and executing a customer relationship strategy.

CRM is commonly recognized as an effective tool in B2B marketing. This is also the case in the fast moving consumer goods (FMCGs) industry, where B2B CRM is defined as managing relationships with channel partners and helping them reach out to the end consumer. Therefore, it is usually practiced at the retailer or distributor's level.

However, does CRM also work in B2C marketing in the FMCG industry? This has long been questioned because CRM is characterized by leveraging large customer bases in order to offer customized one to one marketing, ideally at the individual level. It seems that there exists a paradox between the mass appeal branding (production driven) and one-on-one customer relationship of consumer goods. It is argued that consumers are too many and too scattered, products are purchased directly from retailers, and a particular brand is just one among the many products of the same category that the retailer sells. Therefore, the value of customers is more easily captured through the distribution channel. This is where CRM becomes critical and also where the boundary of CRM lies. This is the reason why end-consumer relationship programs have been by and large disjointed in the FMCG industry, although customer relationship has always been an integral part of the philosophy of many FMCG manufacturers.

For FMCG companies, branding has traditionally provided connection with consumers. These companies have relied heavily on brand strength to generate and secure customer demand that translates into shareholder value. Brands are one of the most important assets for an FMCG company and also their most effective marketing tool.
However, over the past decade, B2C CRM as a concept has gathered momentum within the FMCG industry. We have seen an increasing number of consumer level CRM programs used by many FMCG companies, especially industry giants such as P&G, Pepsi, Nestle and Unilever. Examples of such CRM programs are:

(1) Setting up national-level call centers to address consumer complaints. The system generates regular reports that keep the management aware of routine and evolving consumer concerns, with management reviews undertaken routinely;

(2) Having consumer panels regularly for every brand in the portfolio, testing a hypothesis based on feedback from the sales force, organizing focus group discussions in order to validate a hypothesis or to supplement the findings of a syndicated research;

(3) Launching targeted catalogues/newsletters;

(4) Using the internet as an fast, economic but effective way for consumer research and customer interaction.

Although some of the programs have succeeded, many of them also failed. It seems that standalone CRM initiatives at the B2C level for FMCG companies cannot deliver in the short term and can be expensive. Relationship building is a slow process, especially in a market where the consumers are highly heterogeneous. Although it is commonly realized by FMCG companies that the objectives of consumer-end CRM is to provide a platform to consumers to get closer to the company and encouraging them to offer solutions, feedback and suggestions, there is far less agreement on the framework under which a consumer-end CRM program can be successfully deployed.

The objective of our project is to examine how FMCG marketers should assess the B2C CRM decisions. Our hypothesis is that the effectiveness of CRM programs depends to a large extent on two dimensions: Baseline Loyalty Potential of FMCG consumers and the Customer Value of the heavy users. Due to the lack of data, our approach is based on theoretical models learnt in class, and other CRM research, and on the use of real-life examples (interviews with INSEAD colleagues who worked at Unilever, P&G and British American Tobacco (BAT) and case studies from OgilvyOne). Through our analysis, we try to examine how our theoretical hypothesis can be established and how it performs in real life.
2. How CRM is applied in FMCGs at this time

2.1 Why has B2C CRM become popular with FMCG companies?

The market environment for FMCG manufacturers in the past decade has been characterized by economic slowdown, heightened competition, fragmented retail structure, extreme consumer price sensitivity, low levels of product differentiation, etc. The following is a summary of the main trends in the FMCG industry which explain why many FMCG manufacturers are now interested in exploring B2C CRM:

Growing dominance of retail industry
In most industries, a few large retail chains continue to swallow up the selling area and increase market share. In Germany for example, the 6 largest retailers accounted for over 90% of total revenue in the non-food sector in 2001. In almost every European country, the 3 largest trading companies account for more than 50% of revenues. The near-monopoly held by the larger retail chains has shifted the power from manufacturer to retailers, pressing the manufacturers’ margins.

Falling brand recognition versus increasing price consciousness
The success of large discount chains in introducing private labels has resulted in a drop in brand recognition and an increase in price consciousness. On average, today’s German consumer buys 3.9 different brands per product group in 3.4 different shops, i.e. not only is brand recognition on the decline, but so is customer loyalty. Competition pressures have made commodities of all but a few products and services; it is even more difficult to differentiate between products in a market characterized by a strong predatory pricing policy and intense price war. Therefore some industries (e.g. free home delivery service offered by Nestle China for bulk order of distilled water) try to provide services to improve customer relations and thus make the total product (goods combined with service) harder to emulate by competitors.

Emerging of new sales channels

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1 “CRM with Update”, Industry Paper---Fast Moving Consumer Goods
Electronic markets are playing a more important role in today's FMCG industry. The increase in the number of home delivery companies taking orders online is symptomatic of the internet era. The Internet has raised customer expectations. The challenge for manufacturers striving for success on e-markets lies in strengthening brand awareness and customer relations.

**Decreasing efficiency of traditional advertising and marketing initiatives**

The number of marketing campaigns as well as expenditure on advertising was continually increased in a bid to improve market presence and raise brand awareness. Today, big sellers of branded goods invest upwards of 10% of their revenues in marketing. Over 50,000 brands are vying for the consumer's attention in Germany alone. No wonder the appeal of brand is diminishing. Competing globally with mature brands in saturated markets has posed daunting challenges. This is coupled with a constant decline in efficiency of the traditional marketing due to diversified media channels. On the one hand, overwhelming consumers with information runs the risk of missing the target. On the other hand, the costs of traditional advertising have risen exorbitantly in some cases. In the USA, for example, the cost per thousand viewers for TV advertising has increased by more than 500 percent since the 1970s. This means that products and their brands need more exposures to cover the same audience.

**Need for marketing accountability**

At the organization level, while decreasing margins requires companies to continue to cut costs, immeasurable mass advertising or promotional campaigns are facing unprecedented scrutiny. Companies are in urgent need for highly targeted, measurable solutions that plainly show the gains they produce. In today's mature markets there are therefore many new challenges to traditional marketers. As a result, customer-end relationship marketing has been tested by various FMCG company as a strategic response.

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2.2 Types and trends of CRM programs used

In the past decade, we have seen increased CRM efforts directed at high-value consumers with the objective of increasing brand values and sales. This has been evidenced by the increasing weight of direct marketing (Loyalty cards, direct mailing, internet, etc.) programs compared to mass advertising (TV, print, etc.) as seen in the table below.

<table>
<thead>
<tr>
<th>Media</th>
<th>2001 ad spending</th>
<th>Growth vs. 2000</th>
<th>% of total 2001 ad budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV</td>
<td>$53,879</td>
<td>-3.9%</td>
<td>22.9%</td>
</tr>
<tr>
<td>Newspaper</td>
<td>50,728</td>
<td>-7.7</td>
<td>21.6</td>
</tr>
<tr>
<td>Direct Mail</td>
<td>46,152</td>
<td>3.5</td>
<td>19.8</td>
</tr>
<tr>
<td>Radio</td>
<td>17,892</td>
<td>-6.2</td>
<td>7.5</td>
</tr>
<tr>
<td>Point of Purchase</td>
<td>15,509</td>
<td>-8.8</td>
<td>6.6</td>
</tr>
</tbody>
</table>

However, most direct marketing programs are characterized by the following: 1) heavy couponing and discounts to generate volume gains; 2) multiple single brands communicating with the same consumer; 3) Interactions not reflected across channels; 4) multiple unlinked databases.

We believe that successful consumer-end CRM programs should encompass the following elements: 1) products become point of entry for value added experiences; 2) consumer-centric, multi-brand approach; 3) personalized interactions across all touch points on a real time basis; and 4) one database as a relationship-enabler.

Why are many of the existing CRM programs short of achieving the above goals? We believe that there are two key obstacles:

**Obstacle 1: Not understanding the consumer**

Some CRM efforts failed to focus on the high value consumers (HVCs), or treated HVCs as a homogenous group. Some of them were purely promotional by competing with more coupons or more direct mails. Some even did not recognize that not all consumers do not want a “relationship”, or failed to keep the promise of consistent communication.
Obstacle 2: Lack of corporate commitment

Many CRM programs at FMCG companies did not get going because of transfer of individual brand managers, necessity of "going it alone" with a solo-brand effort, often producing results that fall into an ROI “grey area”, especially in demand-inelastic categories, and difficulty in creating and sustaining multi-brand programs across brand silos. We think that success can be achieved by creating and sustaining real value for consumers, and completing small, focused projects that add up to a big victory over the long run (quick-to-market but with continuous learning and improvement).

3 CRM should work for FMCGs in principle

We believe that CRM targeted at high value consumers should in principle be profitable in the long run. To argue this, we shall dispel three myths associated with CRM at FMCG and explain why these perceptions are incorrect.

Myth one: One to one marketing does not apply for the mass customer base of a FMCG

It is true that FMCG marketing is characterized by a large mass customer base. However, customers differ in profitability, in particular since a minority of the customers accounts for the highest proportion of sales or profit. This is often called the 80/20 rule, or the customer value pyramid.

When the RFM (recency, frequency, monetary value) model is applied to examine whether the customer value pyramid exists in FMCGs, it is found that in certain categories, such as cola, frozen orange juice, and bourbon, one heavy-half household is equal in purchase volume to at least eight of the light-half households (N.B.: if a household’s purchasing rate is greater than zero but less than the median for the category, the household is classified as a member of the light half. If the rate is greater than the category median, the household is classified as a member of the heavy half.) Also with the exception of toilet tissue, no heavy-half category is worth less than four of the light half. 3

3 A search for constants: the "heavy user" revisited!, Victor J. Cook, Jr., William A Mindak)
Another research conducted by OgilvyOne also shows that 16% of customers generated 65% of ice-cream profits, 17% of customers 74% of candy bars profits, and 8% of customers 95% of canned dog food profits.

It is concluded from the above findings that the customer value pyramid also applies to FMCGs. A small group of high-value consumers accounts for a majority of sales and profits at brand, category, sector and company levels for FMCG. The same high-value consumers also show best prospects for incremental volume gains via cross selling, creating brand advocates, accelerating progress on the upside of the value curve and reducing attrition on the downside of the value curve.

However, traditional media advertising insufficiently communicates with and persuades these high-value consumers, because it reaches all consumers equally, irrespective of value. It does a good job in communicating brand advantages, but a poor job in bonding the consumer to the brand thus failing to capitalize on an enormous financial opportunity. Therefore, the key issue is how to use CRM to proportionately invest to build the relationship with the high value customers and appropriate the values accordingly.

**Myth 2: B2C CRM does not pay off economically**
The consumer-end CRM should aim at building customer loyalty. By combining information, process, technology and people to build strong relationships with customers, CRM should really change the way in which companies communicate with customers. There should be tangible results. What good are all those customer databases if they do not produce measurably improved loyalty toward the company or brand?

Based on research from WPP group, bonded customers are 6X more profitable than average customers (see exhibit 1).

**Myth 3: there is a permanent tradeoff between mass advertising and CRM**
According to the Book “Driving Customer equity”4, customer equity is based upon three actionable drivers: 1) Value equity: the customer’s objective evaluation of the firm’s offerings; 2) Brand equity:

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4 Rust, Zeitaml, Lemon, Driving Customer Equity, 2000
the customer's subjective view of the firm and its offerings; 3) Retention equity: the customer's view of the strength of the relationship between the customer and the firm (see exhibit 2).

The customer equity framework clearly demonstrates that high brand equity does not necessarily lead to customer retention equity. First, brand equity is the customer's subjective and intangible assessment of the brand, above and beyond its objectively perceived value. This evaluation is shaped by the firm's marketing strategy and tactics and is influenced by the customer through life experiences and associations with the brand. After all, branding provides connections with the consumers. It is about the connection they make with the consumers. Second, customer retention equity is the tendency of the customer to stick with the brand, above and beyond the customer's objective and subjective assessments of the brand. It focuses on the relationship between the customer and the firm, based upon the actions taken by the firm and by the customer to establish, build, and maintain the relationship.

Since mass advertising has traditionally been an effective tool for building brand equity while CRM is recognized as a means to build retention equity, it is easy to draw the conclusion that there exists a permanent tradeoff between advertising and CRM. Such a mistake results from the failure to see the common umbrella of building customer equity. Using CRM tools can strengthen the brand loyalty of the right (i.e., most profitable) customers. Since the one-to-one (by individual customer) CRM approach of the B2B industry cannot be used by manufacturers of consumer goods, it is recommended to reach the most profitable customer segments (by segment). Increasing brand loyalty through good customer relations is the best way of competing against the strong brands of the multi-million dollar chains.

4 How to assess CRM for FMCG

As explained previously, the objective of this paper is to examine how FMCG marketers assess CRM decision. We focus on the baseline loyalty potential of FMCG consumers and customer value of heavy users will affect the effectiveness of deploying CRM programs. In this session, we define baseline loyalty and customer value conceptually. However due to the lack of quantitative
data in our research, we have to call on our judgment by evaluating the major proxy attributes to
decide if the product in question is high or low in terms of its baseline loyalty potential and
customer value.

4.1  How we define and assess Baseline Loyalty Potential

Baseline loyalty potential is a composite of both attitudinal and behavioral loyalty. We believe that
for FMCG, attitudinal and behavioral loyalty are equally important for the following reasons:
• First, the homogeneity of FMCG product features renders the consumer price-sensitive and
  promotion-sensitive.
• Second, FMCG marketers have to rely on powerful retailers like Wal-Mart and Carrefour to get
  in touch with customers. Therefore, the attitudinal loyalty derived by FMCG marketers will be
  crucial to cultivate consumer loyalty in the highly competitive retail level.
• Third, the low need for consumer service in most FMCGs makes the intrinsic need of
  relationship between FMCG brands and consumers weak.

As a result, baseline loyalty potential is essential to driving FMCG brand preference and loyalty.
By definition, loyalty is a compound measure variable indicating how likely an FMCG consumer is
to ‘sticking to’ a certain brand – or the brand switching behavior within a category. According to
Trivedi and Morgan⁵, there are 2 levels of factors affecting the extent of brand switching behavior:
market structure and brand-specific parameters.

Market structure effect on loyalty
For market structure, Trivedi and Morgan’s study indicated that consumers of yogurt, laundry
detergent and coffee tended to be less loyal to one given brand and more likely to try among
different brands and shift choices (see exhibit 6). Based on our discussion, we believe that the
market structure differentiation is largely related to the characteristics of consumer behavior in
consuming the given product. Important considerations include:
• The level of risk associated with the product (the higher the risk the more loyal to the satisfying
  brand)

• The level of involvement the customer is with the brand (the more involved, the more rational to stay loyal and less reactive to novelty and promotional tactics by new brands)

• The importance of self image projection (the more image-driven, the more stable to retain image consistency and enhancement)

• The sense of belonging to a community (the more sticky to a community, the more loyal to stay with the brand linked to the community)

**Brand-specific effect on loyalty**

Concerning brand-specific parameters, Trivedi and Morgan suggested that 3 brand-specific variables would significantly affect consumers' brand switching behaviors. These are:

• Unique features offered by the specific brand

• Dominance of market leadership

• Coverage of national distribution

This implies that a brand with strong unique features, market dominance and broad national coverage can have higher customer loyalty to protect the brand from brand switching.

For the cases investigated, we try to use the following attributes to help us determine its level of baseline customer loyalty to be applied into the loyalty potential-customer value matrix.

<table>
<thead>
<tr>
<th>Case</th>
<th>Market Structure Factors</th>
<th>Brand-Specific Parameters</th>
<th>Baseline Loyalty Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level of Risk</td>
<td>Level of Involvement</td>
<td>Importance of Image</td>
</tr>
<tr>
<td>Felix Cat Food</td>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Kent Premium Cigarettes</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Unilever Soap and Detergent</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Always Woman's Pads</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Pampers diapers</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>
4.2 How we define and assess Customer Value

Customer value is defined as the lifetime economic value of a heavy user, currently using or not using the brand. Here, due to FMCG’s relative thin margins gained in each transaction, we focus on the highest profit or potential profit generating heavy user segments. The formula we use to calculate the magnitude of customer value is as follows:

Customer Value of Heavy User = (Gross margin of the product x Annual volume consumed by heavy user x Expected No. of Years of Customer Life) – Cost of CRM to reach the heavy user

Again due to the lack of real data, we have to call on our judgment to determine how we assess the magnitude of customer value for each case we interviewed.

<table>
<thead>
<tr>
<th></th>
<th>Gross Margin</th>
<th>Annual Volume</th>
<th>Expected No. of Years of Customer Life</th>
<th>Cost of CRM</th>
<th>Customer Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Felix Cat Food</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Premium Cigarette</td>
<td>High</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Soap and Detergent</td>
<td>Low</td>
<td>High</td>
<td>Short</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Woman’s Pads</td>
<td>Medium</td>
<td>High</td>
<td>Long</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Diapers</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
</tr>
</tbody>
</table>

Having defined the two main dimensions of consideration – Loyalty Potential and Customer Value, we will examine the individual case in each quadrant. The objective is to examine in each specific quadrant, how CRM is applied and why it succeed or failed. We will examine the individual case in each quadrant to examine how loyalty potential and its economic value contributed to the success/failure of the CRM program.
5 Examples of CRM application in FMCGs

5.1 Nestle’s Felix Cat Food in UK
Cat food inspires unusually high levels of customer bonding at 9% as compared to that of other FMCG categories at 5%, (see exhibit 3). In addition, the cat food category also complies to the rule of heavy user concentration with 14% of heavy cat owners amounting to 44% of cat food turnover (see exhibit 3). Furthermore, the customer value of a bonded cat food buyer is indexed at 587, almost 6 times more valuable that of an average cat food consumer without strong emotional ties with any cat food brand (see exhibit 4).

5.1.1 Market Background
In the UK, the cat food market is basically dominated by P&G’s Whiskas. Nestle’s Felix Cat Food is a distant runner-up. Whiskas is outspending Felix both in depth and breath in media, direct marketing, promotions and trade support. For example in 2001, Whiskas’ total brand communication budget is 427% that of Felix (see exhibit 4.5).

Whiskas has moved away from its authoritative message to a more emotional approach. As a result, Whiskas became a more engaging brand among cat owners and it has won a strong foothold of consumer’s mindshare. Accordingly, it outperforms Felix against all key image ratings. For example, compared to Felix, Whiskas rated 6% higher quality, taste 9%, health 9%, character 4% and trust 8%. Whiskas not only enjoys the large market share but also is well connected with its consumers emotionally.

Whiskas also demonstrates a strong customer equity base. Based on Ogilvy’s BrandZ model (see exhibit 4), Whiskas attracts almost twice as many emotionally loyal consumers as Felix. Not only Whiskas has more loyal consumers, Whiskas’ loyal consumers are more valuable. Comparing both brand’s high value segments, Whiskas’ consumers scored 1,235 out of 100 index v.s. Felix’s 875. Undoubtedly, Whiskas enjoys a strong market share and high share of requirement.

At the trade level, retailers continue to gain more and more bargaining power. Smaller brands have tough time to negotiate with retailers and out-of-the-box retail-level promotion is more costly.
Being the market leader, Whiskas has disproportionate strength at the retail level as the category leader in cat food. Whiskas is dominating and winning the battle on trading terms. Felix ran some event promotions in-store with disappointing results, and failed to achieve a breakthrough vis-à-vis the strong competitive force.

5.1.2 Business Challenge

Facing such a strong category leader as Whiskas, Felix needed to improve market share and boost sales volume. Given the investment disparity, Felix could hardly compete with Whiskas in trade or mass communication level. Thus the major challenge of Felix was increasing sales and market share with a highly cost-effective marketing campaign at the consumer level (as the trade will only be motivated by consumer off-take).

As learnt from the focus groups, Felix found some merits that could be advantageous to support its aggressive growth plan. First, Felix customers prefer the brand choice because Felix excels in one of the most important purchase criteria: taste and enjoyment (the food my cat likes best). Second, as a result of before, although Felix has overall lower baseline loyalty compared to that of Whiskas, the behavioral loyalty of Felix customer is on par with that of Whiskas.

Subsequently Felix realized a big opportunity in enhancing the emotional loyalty of its high value customers, so as to effectively increase sales. Therefore, Felix decides to deploy a CRM program to help strengthen the emotional loyalty with customers and identify the high value customers accordingly.

5.1.3 CRM Program

Yet unable to compete on even investment field with leading Whiskas in traditional offline media, Felix had to embrace new and alternative CRM opportunities offering targeting with lower investment implications to drive customer preference and purchase intent. Felix aimed at taking ownership of new media vehicles, bringing core brand values to life in an exciting and innovative manner, and building a committed community of Felix fans to drive advocacy.
The solution is the inception of Virtual Felix (see exhibit 5), an interactive downloadable desktop mascot, passed on virally by e-mail, who lives as a virtual pet cat on the computer and interacts with all the elements on the desktop. It delivered the brand character in the digital environment with innovation and flair. The creative execution celebrates cat behavior, and what it means to love cats – spread the obsession of cat lovers. It also develops a genuine affinity for and attachment to the brand amongst the target market, leading to increased preference and share of purchase. Lastly, with its self-targeting mechanics, the program brings huge cost effectiveness against traditional media, bringing an engaging communication environment.

Virtual Felix is a multi-phased campaign designed to test and establish concept viability prior to full launch. It introduced the permanent web presence for Felix as an activity hub and information center to amass cat owners and lovers (potential owners in the future). Through the web and register user function, Felix built relationships through advertised online updates and personalized email enhancements. There are tactical initiatives to engage and excite the Felix community. The campaign started in 2000 and the total campaign investment cost only USD 150,000-200,000.

The campaign components included the following:

- **Recruitment** – a simple Virtual Felix form distributed as an email attachment executable file to the seed group. The email returns a registration to receive an advanced form as a second email from the control server. The downloadable virtual Felix can then start to “live” on the user’s computer. On the computer screen, users can move the cursor over Virtual Felix and to stroke the cat, or click on and pick him up to move him across the screen. Feeding and playing with Virtual Felix is fun and engaging.

- **Data Collection** – the full phase concept development with the launch of the Felix website to the community and data capture started in August 2000. The viral communication started with the initial seed group plus 10,000 test phase registrants. The email notification builds in a link to the website encouraging people to forward to friends. Downloading Virtual Felix now requires user registration on site, which is used as data capture and tracking mechanism – personal details, contact details, details about your cat, and preferred cat food brand.
• Relationship Building - the registered users are motivated to return to the website by downloading ‘Felix's Toybox’, which is regularly updated with new toys for Virtual Felix, such as a new ball of strong, animated frog, beach ball etc. The toybox is also designed as an exe file appearing as a wicker basket on the user desktop. Site content is expanded regularly to include Felix product information, contact opportunity, downloadable screensaver, ecards, moving to a more commercial campaign footing. Online customer relationship is to be cultivated by regular notification of upgrade modules.

• Community Building – this aims at building core relationships and rewarding Felix lovers, creating a community of Felix fans, to boost up the attitudinal loyalty of Felix loyal users. This also carries another benefit: spreading the word to start off online viral effects. For example, in December 2000, the website launched the Felix Virtual Charity Christmas Cards, which are two animated Christmas ecards available on site to send to friends. In them, Felix stays mischievous with his old tricks – even singing a Christmas carol or two. For every card sent and viewed, 10p is donated to the Cat Protection Charity. This is actively triggered once more by email notification with inbuilt hotlink to website.

5.1.4 Results

The initial objective of the CRM program was to use a one-on-one approach to start building the customer relationship with Felix and pave the way to develop full-fledged data-centric and customer-focused CRM program. Therefore, there is no direct link measurement against increase in sales or share. The major measurement matrix lies on online user registration, data capture and emotional bonding (as to increase attitudinal loyalty in a cost-effective way).

Felix has succeeded to achieve 21.4m Hits, 530,000 visitor sessions, 100,000 Virtual Felix downloads, 250,000 modules (toy box for Virtual Felix) downloads and 5,500 Christmas eCard mailings. It achieved an extremely high response rate of 57% to kitten notification e-mailing. The new functionality response has enjoyed an exponential growth.
The customer relationship with Felix is strengthening as 28% of total visitors have returned to the website 3 or more times. 75% of registered users own a cat. 53% of these are primary target cat food buyers who did not use Felix products prior to registration.

In terms of creative execution, the interactive CRM campaign received a Top 5 Digital Execution Award for the year 2000, and was rated the number 1 packaged goods website, and number 1 pet food website by Marketing Week.

5.1.5 Conclusion
As supported by the BrandZ data, the high bonding (loyal user) value of cat food reflected its characteristics of high loyalty values. Although customers had equally strong behavioral loyalty as that of the category leader Whiskas, the company has successfully used Virtual Felix to remedy its weakness in attitudinal loyalty to boost up its total baseline loyalty scores.

Second, cat food in the UK is suffering from a moderate gross margin but extremely high marketing budget due to fierce competition. Virtual Felix has set a good example of how CRM can be implemented creatively to build a strong customer relationship with a minimum low cost. With the booming of internet and other interactive media, it provides a huge opportunity for FMCG marketers with limited budgets to jumpstart data collection in phased stages and set up personalized connections with customers without the necessity of a broad customer installed base.

5.2 Premium cigarettes at British American Tobacco in Romania
This example was gathered through an interview with an INSEAD student who had significant CRM experience as a brand manager at British American Tobacco in Romania. She felt that CRM would never make sense if used for regular products, but that it was a useful tool to promote the Kent brand of premium cigarettes.
5.2.1 The product and its position in our matrix

In a country with low average incomes and high percentage of smokers, Kent cigarettes are targeted at wealthy, young, sophisticated individuals. These people smoke to show off their status, and are willing to pay a significant premium for the product. Therefore, Kent is priced at a 100-150% premium over regular cigarettes. Not surprisingly, the number of customers is limited.

Just like the regular product, Kent is sold in tobacco shops, corner stores and others. The tobacco is identical to that of cheaper brands. The premium aspect is signaled through the packaging, the wrapping paper and the price.

Customers tend to be highly loyal to the product, for the following reasons:
- Image – the product conveys an image that users can identify with. Consumers are very image conscious and truly believe that this product conveys a message about their personality
- Network effects – consumers' friends use this product, which reinforces purchase. Moreover, the marketing used encourages social interaction among buyers of the product, as well as organizing promotions to establish a strong network
There are no real concerns about safety or information requirements, but nonetheless users of this brand tend to be very loyal, both attitudinally and behaviorally.

Customer value for this product is also high among heavy users. The margins are high; the loyal users tend to consume big volume. Although we do not capture the value of word of mouth in the model, we acknowledge that the word of mouth/opinion leader factor adds significant value in this case. As a result, the product would be positioned in the HIGH/HIGH quadrant on the loyalty potential/customer value matrix.

5.2.2 Challenges at BAT Romania

The CRM challenges for Kent premium cigarette are establishing a strong consumer base among the target customers, young professionals in their 20s with above-average incomes. An additional challenge was positioning the brand at the high end and justifying the premium price.
5.2.3 CRM application

The CRM program mainly used email newsletters. Databases were obtained by running promotions in nightclubs frequented by affluent young professionals. Free product was distributed to people who were willing to complete a form with personal profile data and email address. BAT then contacted these consumers via an email newsletter. It may seem strange that one would choose email contact in Romania where internet penetration is less than 5%, but it appears that among users of this brand internet penetration was around 40%.

Then users were placed on a loyalty system, where they received the following advantages: information regarding the company’s new offerings, information about promotions, nightlife events etc, opportunity to network with people sharing the same interests, and occasional free samples.

5.2.4 Quantification of CRM profitability

The promotions used to attract the customers and create the database cost around 5 -10$ per customer. Then the company would offer free samples, which are estimated at about 1 pack for each 10 packs sold. However, this product is already priced at a premium, and offers a margin of 1 $ per pack as opposed to 0.2 $ per pack for a regular product. The product's cost structure and value captured per pack is shown below:

<table>
<thead>
<tr>
<th>Premium cigarettes capturing more value by imposing an upscale image:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed cost</td>
<td>Variable cost</td>
</tr>
<tr>
<td>0.2$</td>
<td>0.2$</td>
</tr>
</tbody>
</table>

| Regular cigarettes pursuing for volume with thinner margin: |  |
|---|---|---|
| Fixed cost | Variable cost | Margin 0.2 $ |
| 0.2$ | 0.2$ | 0.2 $ |

Note that for the premium cigarettes, the margin is 5x the variable cost. Therefore it would make sense to give away up to 5 packs of premium cigarettes if this would induce the sale of one extra pack.
5.2.5 Conclusions

The CRM program employed for Kent premium cigarettes in Romania appears to be very successful; sales have nearly doubled in the past 2 years. The reasons are that the product has both a high loyalty potential and customer value. In this respect, this product is similar to a luxury good.

In addition, the CRM Program was well thought out. First, the brand manager found a way to specifically identify and interact with the target group. The database collection and the promotions were done in discotheques, which emphasizes the social aspect of the brand and also isolates the target segment. Due partly to the specific and tight customer base, the communication with the customer was very personal, and addressed the concerns of the client: personal image, social interactions, etc. In this way, the customer felt that he was being singled out and treated in a special way by the brand.

5.3 Soaps and detergents at Unilever in Russia

This example was gathered through an interview with an INSEAD student who worked as Market Research director at Unilever in Moscow. In his function, he had a good overview of the organization’s marketing strategy and its various CRM initiatives. Our respondent felt that CRM is not suitable for these kinds of low margin and highly homogenous consumer goods, because the customers do not have any attachment or feelings about them. He felt that CRM in this context at Unilever was a fad, and that this Program was causing important losses for the company.

5.3.1 The product and its position in our matrix

Unilever Russia mainly markets cleaning products, including soap brands such as Lux and Dove, detergents such as Surf and Omo and other cleaning products. Because of the intense competition and the higher price sensitivity, Unilever’s products are priced 20-50% lower than they are in Western Europe. The production is local and the costs are lower, but the margins are also lower.
Unilever’s products are mainly sold in supermarkets, and also in some small corner stores. These products are similar in price to other Western brands (P&G, etc.) but up to 80% more expensive than local products.

The customers’ loyalty toward the products tends to be low, for the following reasons:
- Consumers do not identify with or care much about the product.
- The product is not clearly differentiated from other brands; including local brands.

Unilever’s promotional messages focus on the higher quality of the product and the higher status of the products’ users, which does seem to strike a cord with high and mid-income consumers.

Customer value for this product is also quite low among users. The margins are low, and even though loyal users tend to consume higher amounts this does not fully compensate the costly CRM program (high cost per contact). Doing mass brand advertising may be a more effective way to boost up brand preference in Romania. Furthermore, the word of mouth factor is not significant. Although in principle, CRM can work to do cross-sell to improve customer value, it does not seem to work out for Unilever Russia in this case. Probably it was because Unilever has not yet established a strong brand credibility and reputation in Russia to support cross-selling.

As a result, the product would be position in the LOW/LOW quadrant on the loyalty potential/customer value matrix.

5.3.2 Challenges at Unilever in Russia

The main challenge for Unilever is establishing a high market share for its individual brands in the mass market. The key for Unilever is positioning the brands as reliable and high-quality, thereby justifying their premium price. For this purpose, Unilever needs to invest heavily in mass advertisements, as well as insuring that customer satisfaction is high.

CRM has been used mainly for the customer satisfaction objective. In addition, Unilever has attempted to communicate more selectively to loyal customers and attempt to cross-sell and to establish network effects, but so far the effectiveness of these projects is questionable.
5.3.3 CRM application

At Unilever Russia, the CRM system is comprised of the following components:
- a call center, which is used mostly for complaints
- market research, which is used mostly to segment the customer
- in some parts of Russia, customers who are willing to offer their demographic information are kept in contact through a direct mail newsletter
- free samples are sent primarily to people who complain and to those who are on the newsletter list

The following paragraphs discuss the CRM methodologies in more detail.

The call center

The number for the call center is displayed prominently on the products, and customers are encouraged to call and complain or offer feedback. The call center is outsourced, and its costs to Unilever are estimated at 1000 US$ per day, thus 350,000 $ per year. However the utilization of the call center is very low – our respondent estimated there are 10-20 calls per day. Typically, calls involve complaints over faulty products, such as a defective detergent package; and it results in Unilever mailing a product to the person complaining. The name, number and address of the caller is kept on the database, and used in the future to send information and free samples. The information is used so that free samples are not sent people who complain frequently; perhaps without merit.

Market research

Focus groups are conducted periodically, mainly to understand customer’s perceptions and attitudes about the products and to better segment customers and target the company’s communications. Focus groups are also used when launching new products, to assess the consumers’ needs. In addition, quantitative interviews are used to understand market size and brand awareness, as well as to better understand customer demographics and attitudes.

Newsletter

Databases of loyal customers are obtained having them sign up for various promotions, in-store and by direct mail. In some parts of Russia, Unilever offers these customers mail newsletters.
These documents discuss product issues at Unilever, future promotions and developments and offer coupons. This method is in an experimental stage, and it is not clear whether the costs of the newsletter will be recuperated through increased purchases.

Free samples
As discussed above, the recipients of free samples are the people who complain through the call center and the newsletter subscribers.

5.3.4 Quantification of CRM profitability
According to the respondent, the call center and newsletter initiatives are not likely to be beneficial to the company. The call center is costly (about 350,000 US$ a year) and is used very infrequently, often for no good reason. The subscription database and newsletter cost the company 15-20 US$ per subscriber per year, and an estimated 200,000 US$ yearly total for a subscriber population of 10,000 persons.

The benefits of these measures are obviously very difficult to measure. Taking as an example the newsletter, the benefits can be analyzed as follows. Assuming that the average margin per product is 0.2 US$, the 10,000 newsletter subscribers would have to purchase 100 Unilever products each year above their normal consumption (their consumption if they did not receive a newsletter), in order for the investment to break even. This is obviously unlikely to happen. Furthermore, according to our respondent, no increase in sales has been detected in areas where the newsletter program has been implemented.

5.3.5 Conclusions
The CRM methodologies employed by Unilever are not very successful. We feel that the main reasons are the fact that customers do not have an emotional attachment to the products (low loyalty) and, not unrelated, the value of the loyal customer is low.

The call center may be useful in insuring customer satisfaction and thus improving brand equity, but the low utilization is a concern. We feel that Unilever would be well served by investing more
effort in encouraging customers to utilize the customer hotline. The newsletter also does not appear to be successful in inducing cross-sales and word of mouth, again probably because the customers’ loyalty potential is low, plus the brand awareness and preference towards Unilever in Russia is still low. In the case, we feel that it would make more sense to invest in mass advertisement, with CRM perhaps as an additional tool for better understanding the market and for improving customer satisfaction.

5.4 Always brand feminine pads at P&G in Middle East

The information regarding P&G was obtained from a current INSEAD student who worked as a brand manager in Middle East, covering several brands and serving countries such as Syria, Libya, Iraq, etc. Our respondent used CRM extensively, for the company’s many brands. CRM also took many forms, through the use of call centers, databases, mailings, newsletters and personal visits. In our respondent’s experience, CRM was much more useful for some brands than for others. She considers that in the case of Pampers baby diapers, CRM is an indispensable tool which secures important profits. In the case of other products, such as feminine sanitary pads and tampons, CRM implementation was not successful and in some cases had to be discontinued. In this section we will discuss the CRM system used for Always brand feminine pads in Middle East.

5.4.1 The product and its position in our matrix

As in our previous examples, in the Middle East there exist huge income differences between the rich and the poor. The poor are not in the market for branded products, so promotions are primarily targeted at the rich and the upper middle class. The clear separation makes life easier for marketers intending to use CRM. In addition, in these markets, relationships in sales are particularly important; even more so than in Western countries.

In the Middle East, Always pads are sold in supermarkets, pharmacies and some upscale outdoor markets. P&G is the market leader in the category, with a 30% market share. The competition from P&G consists of other Western brands, and cheaper brands from other countries (such as China). In addition, around 50% of the female population do not use pads.
Loyalty to the product is considered low. It is estimated that customers purchase the same brand twice in a row less than 50% of the time. The reason for the switching is as follows:

- There is not much differentiation among brands; partly because intellectual property laws are weakly enforced and technology is quickly imitated.
- Image is not a factor, since the product choice is very private.

On the other hand, there are safety and information requirements, which is what P&G tried to exploit. However customers prefer to obtain this information from friends and family rather than from the marketer.

Customer value for this product tends to be quite high. The margins are high (50-100%) since purchasers tend to be non-price sensitive. Also, loyal users tend to use much higher amounts than non-loyal users and the word of mouth/ opinion leader factor is high. In addition, the company can leverage satisfied customers into purchasing other P&G brands.

As a result, we place the product in the LOW LOYALTY POTENTIAL /HIGH CUSTOMER VALUE quadrant of the matrix.

### 5.4.2 Challenges for the Always brand

The challenges for this brand are establishing a strong consumer base among the upper and upper-middle class customers. This would lead to an increase in market share overall. The company wants to educate consumers in order to increase the utilization of feminine pads. Messages focus on the hygiene and comfort of the Always brand, in an attempt to establish a premium price.

### 5.4.3 CRM Program

In the P&G Middle East offices, the CRM system involves the following: Call center, Database and direct mail, including free samples, and In-store assistants offering information about Always and other P&G products.
The call center is used mostly for complaints. It is operated by another section of the company, and the brand manager interviewed did not have much information about it. Callers are usually offered free samples and product replacements. Their address and demographic information is kept on file, and a dialogue is established with them through follow-up calls and direct mail. The rationale is that the callers must be the most involved and loyal customers, and thus should be treated well. In addition, the call center handles questions related to the P&G image. For instance, there is a persistent rumor that P&G’s moon and star logo has satanic associations, and the call center agents are well trained to reassure the callers.

The database is obtained during promotions, whereby people purchasing feminine products are asked to fill out a questionnaire including their address and phone number. This information is used to send direct mail including product information and free samples. However, the respondent has found that in more than ½ of the cases, customers fill in incorrect information.

In-store assistants are occasionally located in the feminine product isle of a supermarket. They offer product information and recommend Always over competitor products. In the respondent’s experience however, these promotions are not successful. Customers are not usually keen to speak with the assistants, and sometimes this even makes it more likely that customers purchase competitor brands (because customers feel embarrassed with the assistant around, so they go to the other end of the shelf for competitor’s brand).

5.4.4 Results of CRM approach

According to the respondent, the CRM methods used are not effective in increasing the sales or profits for the Always brand. The system whereby people who complain receive free products is costly and is being abused. As for the assistants present in the aisles, the brand manager believes this can actually deter customers from purchase.

5.4.5 Conclusions

It appears that for a product like Always pads, CRM implementation is problematic. We argue that the main reason is the low loyalty potential. Due to difficulty in product differentiation and price
sensitivity, attitudinal loyalty to Always is low. Moreover, the emotional loyalty is also low as the bonding between Always brands and customers is weak.

To begin with, CRM approaches do bring some benefits. The tactics used - call center and free samples - are important in establishing customer satisfaction and creating an image as a company that cares. In addition, tracking the pattern of complaints can offer important insights into consumer needs.

On the other hand, there is a definite lack of targeting. Both call centers and assistants have the drawback of reaching the mass customer, and not specifically the one who is the most loyal or profitable. We feel that more emphasis should be placed in identifying these promising customers and directing the CRM efforts at them.

5.5 Pampers diapers at P&G

This information was gathered from the same brand manager as above, who oversaw sales of multiple P&G brands in the Middle East. In the case of diapers, such as the Pampers brand, the story is quite different. In this case, a targeted CRM system seems to have produced excellent results.

5.5.1 The product and its position in our matrix

As with feminine pads, P&G is the market leader in the baby diaper category, with Pampers enjoying a 50% market share. However, as before, the majority of the population does not use diapers for their babies.

Loyalty to the product is high initially, but as the consumers become accustomed to the product they begin to shop around for competitive prices. Therefore in the long run loyalty appears to be low. Even though there is a safety concern in the beginning, this disappears as the parents gain more experience. Other factors we considered – image, network effects etc. are negligible. Furthermore, as for Always, the opportunity for differentiating the product is low.
Customer value for this product tends is high. As with pads, the margins are high (100-200%), since purchasers tend to be non-price sensitive. Also, loyal users tend to use much higher amounts than non-loyal users. In addition, the company can cross-sell to satisfied customers. As a result, as in the case of Always feminine pads, we place the product in the LOW LOYALTY POTENTIAL /HIGH CUSTOMER VALUE quadrant of the matrix.

The challenges for Pampers are similar to those of Always: gaining market share and keeping the high margin through educating the consumer.

5.5.2 CRM Program

The CRM systems described for Always are also used for Pampers, but there is one important addition. Pampers employs middle-aged ladies to visit new mothers in maternity wards and offer information. These ladies act as ‘baby consultants’, offering help with a wide variety of topics. Parents are generally not aware that these ladies are employed by P&G, and in many cases long-term trust and friendships develop between them and the advisor. This method is used to sell not only diapers, but also several other P&G baby products and others.

5.5.3 Results of CRM approach

Although no hard data are available, the brand manager felt that the CRM method (hospital advisors) can increase the probability of the parents starting their baby on Pampers by 50%. Considering that one heavy user can bring the company over 2000$ yearly revenues, the minuscule salaries of the advisor ladies are money well spent. In addition, by promoting other products and sometimes staying in contact with the parents long after the delivery, these ladies are expected to provide important cross-selling benefits.

5.5.4 Conclusions

The key for success in the Pampers CRM system is the targeting. For a product like Pampers, the potential customers are a limited group and are easy to find. Furthermore, the system is well
implemented, by offering information and other services that customers need and welcome. Thus not only is it effective in selling P&G products, but it also provides useful services to the consumer.

As shown above, diapers are typically in the low loyalty potential quadrant. However, through the use of targeted CRM, the effect is in moving customers into the ‘high’ quadrant. This is done by emphasizing the safety aspect of the product, as well as creating a mutually beneficial network of users and advisors.

6 Recommendations

The 5 case studies analyzed above confirm that CRM can be applicable for FMCG categories but this is subject to 3 major conditions.

First, there must be some customers who are more important than the others. In other words, the category must comply with the 20/80 rules with a certain target segment of customers contributing to a higher portion of profit. Otherwise, the use of mass communication will be preferred to CRM due to the higher cost per contact.

Second, FMCG marketers must be able to assess the strength of baseline customer loyalty of the product in question. The strength of baseline customer loyalty will vary depending on the product’s market structure as well as brand-specific parameters. This implies that baseline customer loyalty is dynamic throughout time, place and market conditions. Baseline customer loyalty can be both reshaped by the dynamics of industry structure and maneuvered by the brand decisions to increase market dominance, product innovation and market coverage. As a result, marketers have to actively reassess the dynamic change of their baseline customer loyalty when there are major changes in both market structure and the brand’s position in the market.

Third, FMCG marketers should also be able to explicitly calculate the customer value of the heavy user. Based on our formula, marketers have to evaluate the following four variables: the product’s gross margin, annual volume consumed, expected number of years of customer life, and cost of

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6 Customer Value of Heavy User = Gross margin of the product x Annual volume consumed by heavy user x Expected No. of Years of Customer Life – Cost of CRM to reach the heavy user
doing CRM. These are all parameters that FMCG marketers can control to improve the customer values. As a result, FMCG products with higher margin and more loyal customers (longer expected no. of years of customer life) will tend to have a higher customer value. Therefore, in the premium cigarette Kent example, the marketer can afford the higher CRM cost to sustain its brand presence among the target users.

Apart from understanding the econometric measure of customer value, it is important to recognize the power of creativity to improve customers’ willingness to pay, increase usage frequency, and reduce the cost of contact with customers (as in Felix’s case, the creative use of viral interactive marketing to jumpstart CRM).

Having examined cases in each quadrant, we believe that the higher the baseline customer loyalty and the higher the customer value, the more likely that CRM will succeed. In cases where only one of the 2 dimensions is high, there is still a chance that CRM can work. It depends on how FMCG marketers can make effective use of CRM programs to improve the brand’s profitability.
In the following, we summarize the priority drivers and suggested approaches to CRM in each quadrant.

<table>
<thead>
<tr>
<th>Loyalty Potential</th>
<th>Customer Value</th>
<th>CRM decision depends – Drive Creativity</th>
<th>Invest in CRM system – Drive Profitability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>High</td>
<td>Only approach CRM if this can be done to improve the topline result with proportionate cost of contact</td>
<td>CRM is powerful here.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Use creativity to change customer behavior by spending more (up sell or cross sell) or consuming more</td>
<td>CRM can be used o to reinforce loyalty</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Use creativity to increase the cost effectiveness of CRM effort and break through the direct mailing clutter</td>
<td>o to improve profitability</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>o to attract new customers</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>o to generate positive WOM</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>o to establish user networks (community)</td>
</tr>
<tr>
<td>Low</td>
<td>Low</td>
<td>No CRM for now – Stay conscious</td>
<td>CRM decision depends – Drive Loyalty</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CRM may not be as effective as building brand equity and thus investing in CRM is usually not worth-while</td>
<td>Short term CRM tactics can be effective to generate immediate results.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>However as both customer value and loyalty potential are dynamic variables, i.e. will change over time, it is essential for marketers to closely monitor the change in market structure, consume behavior, and competitive reactions.</td>
<td>However long term and initial huge investment in CRM infrastructure will be challenged by sustaining stronger loyalty.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Apart from the goal of driving profitability, CRM can be used to improve customer satisfaction by providing product information or to re-inforce brand proposition</td>
</tr>
</tbody>
</table>
To conclude, the pre-requisite for FMCG marketers to assess the potential use of CRM include the following:

- Assess the customer value segmentation to ascertain the existence of high value customers and to identify them
- Assess the current baseline customer loyalty potential and customer value
- Explore the possibility to change the current dynamics of loyalty potential and customer value
- Actively evaluate the dynamic change of baseline customer loyalty potential and change in customer value by continuous measurement and evaluation

As suggested by Cigliano, Georgiadis, Pleasance, and Whalley (2000)(7), although in some cases CRM may not be economically sound (perhaps when Baseline Customer Loyalty and Customer Value are low), there are some other non-economic factors that CRM can bring to the brand. First, CRM can strengthen the brand’s value proposition. Second, CRM can be used to learn more about customers, which can also turn into valuable market intelligence for new product/market development. Finally, as discussed in class, word of mouth is another significant non-monetary benefit that building strong customer relationship with influential customers can bring to the brand. Although our model does not account for the benefit of word of mouth into our customer value calculation, FMCG marketers should not forget its significance, particularly to generate positive feedback among opinion leaders.

In conclusion, CRM is both an art and science to build the FMCG business. A strong customer relationship can become a sustainable competitive advantage to the FMCG brand. However it demands both strong analytical skills and creativity to rationalize and differentiate your relationship building effort vis-à-vis competitors who are also keen to do the same thing.

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Exhibit 1:

Bonded Customers Can Be 6X More Profitable

Value of a Bonded Customer
Average Customer/Average Brand = 100

Source: WPP BrandZ Study
Exhibit 2:

Driving Customer Equity

The Inevitable Shift of Customer Equity

- Old Economy > New Economy
- Goods > Services
- Transactions > Relationships
- Attracting > Retaining
- Customers > Customers

Brand Equity > Customer Equity

Source: Driving Customer Equity, Rust, Zeithaml, Lemon, 2000
Exhibit 3:

Cat food inspires unusually high levels of consumer bonding

<table>
<thead>
<tr>
<th>Average Cat food Brand UK</th>
<th>Bonding</th>
<th>Advantage</th>
<th>Relevance &amp; Performance</th>
<th>Presence</th>
<th>No Presence</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9%*</td>
<td>27%</td>
<td>21%</td>
<td>14%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: Ogilvy BrandZ™ / Ogilvy Loyalty Index™

And must seek to address the consumers’ position relative to loyalty and value

Source: Ogilvy BrandZ™ / Ogilvy Loyalty Index™
Exhibit 4:

Bonded consumers are worth nearly 6 times more than the average

<table>
<thead>
<tr>
<th></th>
<th>Average Buyer</th>
<th>Felix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonding</td>
<td>587</td>
<td>592</td>
</tr>
<tr>
<td>Advantage</td>
<td>209</td>
<td>264</td>
</tr>
<tr>
<td>Relevance &amp; Performance</td>
<td>98</td>
<td>90</td>
</tr>
<tr>
<td>Presence</td>
<td>100 index</td>
<td>72</td>
</tr>
</tbody>
</table>

Source: Ogilvy BrandZ™/Ogilvy Loyalty Index™

But Whiskas attracts almost twice as many emotionally loyal consumers

Source: Ogilvy BrandZ™/Ogilvy Loyalty Index™
Exhibit 4.5

Whiskas is outspending Felix in depth & breadth

2001: Whiskas brand communication + 427% vs. Felix

Source: Friskies
Exhibit 5: www.catslikefelix.co.uk
Based on Trivedi and Morgan’s research, apart from the brand-specific parameter, some categories demonstrate more brand switching behavior than that of the others, which are yogurt, laundry/detergent, automobiles, color television and coffee.