

7. CRM Chapter 7 proposition

The individual customer

7.1. Customisation

7.1.1 Definition

Customisation is an extension of one-to-one marketing where customers are treated as individuals and not as account numbers. Customisation would provide the opportunity that the customer would enjoy. This strategy proves that the organisation recognises its customers and is ready to alter its offerings to facilitate valuable customers.

7.1.2 Customisation and customer's perspective

- When applying customisation, company should put their product-oriented strategy aside. This is because customer's perspective plays an important role to develop the product.
- Peppers, Rogers and Dorf (1999) suggested that:
"Customers ... do not want more choices. They want exactly what they want, where, and how they want it..."
- Therefore, in customisation, a supplier should ask:
"What value can we supply to the relationship?"
NOT
"How can we further differentiate the product so that individual customers can find something to their liking?"

7.1.3 Problems with customisation

- Complexity in company processes
Adaptation required for the offered products or services. This leads to a complex and tedious process.
- Unreliability and inefficiency
In order to produce customised product, company might increase the costs of management and processing, and allocate extra time since each case is dealt individually. System reliability is also decreased.

Companies may ask these 4 questions before implementing customisation:

1. How does a customer behave OR Which activities does he or she perform?
1. Can we make it easier on the customer OR Can we make him or her more successful?
2. Are these activities we perform better than the customer?
3. Is there a product or service we can offer him or her which will result in the achievement of success?

Example of company implementing customisation:

Peabody (a part of Ahold group) is an online supermarket in the United States. This company uses interactive search programmes to help customers to create the virtual supermarket that is best suited to them. Shopping lists may be created and save. Customers will be asked for a feedback each time they finish shopping.

Peabody learns from each and every interaction with a customer. The feedback will be used to provide additional service either free or for a fee. An example is, providing nutritional information for their products free of charge. This helps customers to satisfy and simplify their shopping experience. (Van Asseldonk, 1998)

7.2. Individualisation of the product offering

- Company should determine jointly, in interaction with customer, what is required and what can be done when applying customisation.
- Company should also have an extensive planning and stocks of finalised products are necessary in order to be able to satisfy customer demand quickly and reliably.
- Gilmore and Pine (1997) proposed the solution of mass customisation and mass individualisation.

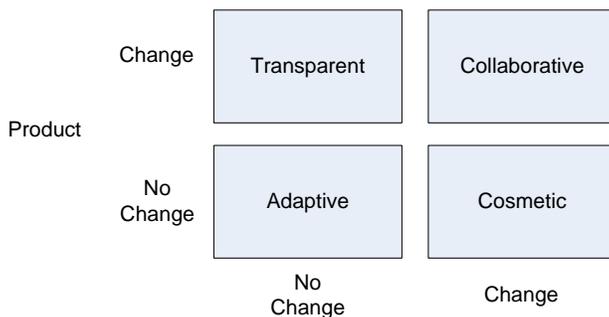
7.2.1 Mass Customisation according to Gilmore and Pine

- According to Gilmore and Pine (1997), mass customisation brings the idea of adapting the product or service to better satisfy the needs of individual customers

or segments of customers, at the same time benefiting from production economies.

- Each customer provides unique information so that the product may be tailored to his or her specific needs.
- Therefore, this requires the production process to be very flexible in order to satisfy these needs.
- Besides that, there is no stock kept of finished product because the organisation quickly and immediately react and anticipate customer wishes.
- No / Less Inventory :
 1. Advantages – low stock costs.
 2. Disadvantages – customers must wait.
- Gilmore and Pine identified **FOUR (4)** distinct approaches to product customisation:
 1. Collaborative customisation
 2. Adaptive customisation
 3. Cosmetic customisation
 4. Transparent customisation
- These four approaches are categorised based on the manner in which customers make their wishes explicit/clearly to suppliers.

Forms of mass customisation



7.2.1.1 Cosmetic customisation

- Cosmetic customisation only makes simple adjustment in the product exterior (representation).
- Cosmetic customisation only customised on its representation with no further product adaptation.
- This approach is suitable if customers use the product in the same way and the only differences is how the product is presented.

- Example: Pantene shampoo packaging has customised the prescribed usage in different language according to the country it sells.

7.2.1.2 Transparent customisation

- Transparent customisation adapts the product itself, not the representation product. This means, the entire product might have the same exterior design or appearance, but with different functions.
- Transparent customisation supplies customers with unique products and services without informing the customers that the products have been produced especially for them.
- The company gathers data from all sorts of different sources in order to produce its customised materials.
- This approach is suitable when customers' needs are easily identified and predictable which can be done by observing customers' behaviour without getting directly involved with the customers.
- Example,

7.2.1.3 Collaborative customisation

- Collaborative customisation adapts with both representation and the product functions itself.
- Company that chooses collaborative customisation usually maintains contacts with customers to gain ideas on their individual needs and requirement.
- The company then, make a product offering according to the individuals' needs and requirement without producing them first. Once orders received from customers, then only the company will produce the product.
- This approach is suitable when customers are not capable of easily conveying what they want.
- Example, Paris Miki, a retailer of spectacles, developed a digital system that advises customers in their choice of a frame. The costs are lower because fewer complete products need to be kept in stock.

7.2.1.4 Adaptive customisation

- Adaptive customisation adapts to neither the product nor the representation.
- A company instead, offers one standard product that is designed for users, which they themselves can adapt with the product to suit their own needs.
- This customisation is suitable for customers who are looking for a product that serves different purposes under different circumstances.
- Example: Lutron Electronics Company a lighting system designer, allows customers to choose pre-programmed types of lighting. The customer has the option to choose different types of lighting one for reading and one for a romantic dinner.
- Ikea sells unfinished kitchen table set and offers customers different paint colours before painting it for customers or customers have option to paint on their own.

7.2.2 Customisation in the supply chain

- Supply chain promotes mass customisation since it allows the customisation process to be more flexible through the supply chain activities.
- For example, if the customisation is only required at the distribution level, thus a customisation is adapted at the distribution level only without involving other process.
- Lampel and Mintzberg (1996) suggested that supply chain provides customisation from pure customisation to pure standardisation.
- As shown in Figure 7.0 is the supply chain level of customisation as indicated by Lampel and Mintzberg.

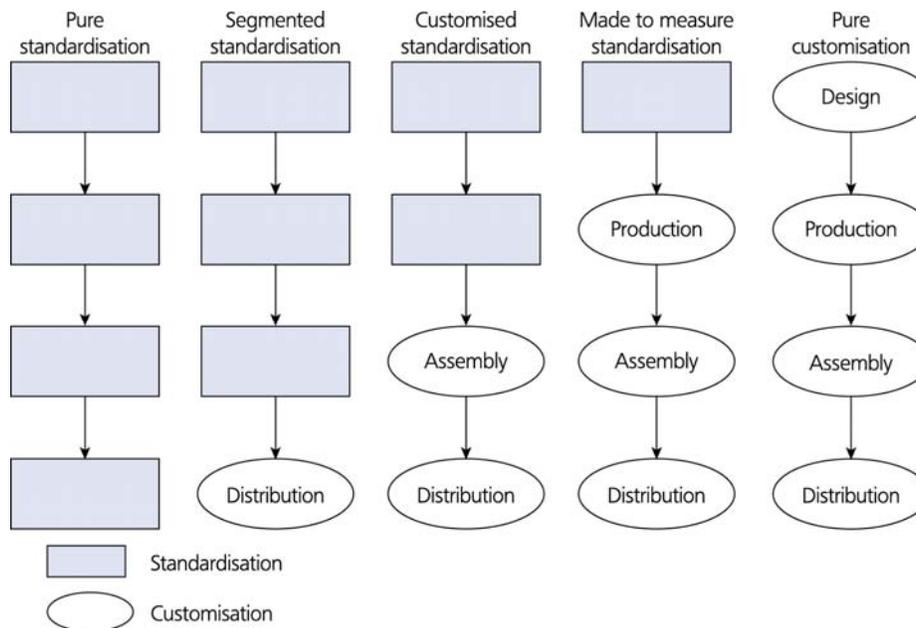


Figure 7.0 How far is the individual customer order integrated in the supply chain?
 Source: Lampel and Mintzberg (1996).

CLASS EXERCISE:

FIND EXAMPLES OF PRODUCTS THAT REQUIRE A SEGMENTED STANDARDISATION AND CUSTOMISED STANDARDISATION.

7.2.3 Mass individualisation according to Van Asseldonk

According to **Van Asseldonk**, the present industrial structure is unable to incorporate the consequences of increased **individualisation** without severe increases in costs. He emphasises that the following issues arise when **mass-individualisation** penetrates deeper into the supply-chain and moves into the design and fabrication processes as well:

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the point where client orders enter the supply chain slips deeper into the chain,

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unpredictability calls for responsiveness of the production process and the management (traditionally unpredictability is solved through the introduction of waiting times and stock),

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value creation is not based on reduction of production costs but on a price premium the customer is willing to pay for customised products, and

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communication (dialogue) with the customer to help them articulate their needs.

7.3. Individualised pricing policy

- Customers differ from one another depending on the time and the situation.
- A company might have to accept lower profitability if it decides to always charge everyone the same average price.
- This is an advantage for the customer when they appreciate CRM since supplier does not dare to derive the maximum profit from it, and allows a price premium.
- Therefore, to promote price premium, exploration of the possibilities for an individualised pricing policy is recommended.

7.3.1 Possibilities to implement a precision pricing policy thanks to e-commerce.

Definition:

Precision pricing policy is when the pricing is adjusted to that which individual customers or segments are prepared to pay at a certain point in time. (Peelen, 2005, pp153).

Meaning of the definition: 'what the individual customer is prepared to pay in a specific situation.

- Precision pricing policy requires the current pricing system to be adjusted. (including discounts rate, etc)
- This policy is suitable to cater price transparency promoted by e-commerce since it is computerised and describe fully the rules and reasons for the pricing.

7.3.1.1. Example of precision pricing policy framework:

Elements:

1. Requested price

The requested price is based on value proposition or how the customer perceive the value of the product/services.

The value proposition will be grouped together and for which a price will be requested and which will be broken down into sub-component.

2. Prices / Discounts

Prices and discounts can be depending on specific times of purchase or delivery.

Example: www.genting.com.my

During peak season, the hotel room charges will be at premium. During low season, the room rate is discounted at 70% than the actual room rate. However, the pricing is only applicable for online purchase.

3. Complimentary services

Certain charges allow the customer to experience extra complimentary services.

Example: 24hours service after sales.

4. Product / Service package

Volume discounts may be made dependent on the product or service package that customers purchase.

Example:

7.3.1.2. Precision pricing policy is practical/possible to implement because: