Building and Managing Customer Relationships
B70.2345
Fall 2004

Course Syllabus – August 17, 2004

Location: 
Time: 1:30 pm-2:50 pm  
Tuesdays & Thursdays, Sept 7 – Dec 9  
No classes on Sept 16 / Dec 16  
Make-up class: TBA

Professor: Hitendra Wadhwa  
Contact info: Email – hitendra@delphinity.com  
Phone – 917 648 5951 (Direct)

Office Hours: By appointment – Tuesdays & Thursdays

Introduction

Over the last several years, many organizations have realized that substantial financial value can be created by methodically building and managing customer relationships over time, rather than focusing purely on building and managing product portfolios. This “relationship marketing” mindset is associated with a range of new economic concepts, marketing strategies and IT/organizational requirements. This course introduces students to the central principles of relationship marketing.

The course is structured along the following four areas:

1. **Marketing Strategies** – Including approaches to customize the 4 P’s of marketing, segmentation strategies, marketing communications across the customer lifecycle (acquisition - development - retention), and loyalty/rewards programs.
2. **Economics** – Key economic measures that are central to relationship marketing, including lifetime value of a customer, acquisition cost per customer, pocket price, and cost-to-serve.
3. **Analytics** – Selective areas of quantitative analysis associated with relationship marketing: testing, response modeling and segmentation. These will be discussed at a managerial level – this course will not teach the analytics of CRM in an in-depth statistical manner.
4. **Infrastructure** – Organizational design, implementation barriers and strategies, and IT/Systems.

The course is relevant for students going for careers in general management, marketing, consulting and entrepreneurship. The topics covered in the course are applicable across both business-to-consumer (B2C) and business-to-business (B2B) environments. While most
publicized stories in relationship marketing are B2C oriented, this course will also discuss how relationship marketing can be implemented in B2B contexts.

Class Format & Preparation

The course will use a mix of lectures, cases and guest speakers. The final two classes will feature team presentations from students.

Class discussion is encouraged not just on cases but on the concepts being covered in the lectures as well. Besides describing tools and concepts, classes will emphasize the application of these ideas in practical contexts and the identification of best practices from the business world.

It will be assumed that students have done the required reading for each class, have analyzed assigned case materials, and are prepared to discuss these in the class.

The optional reading in the class-by-class plan aim to give students additional depth on topics of interest – I will present key points from these in the class, but students are not required to have reviewed the optional reading for class discussion or case analyses.

What Level of Quantitative Analysis Proficiency Will the Course Require?

This course is positioned for managers, strategists and entrepreneurs. To that end, it does not focus on building specialized statistical modeling skills associated with CRM programs – the domain of quantitative experts (either internal resources or consultants) who managers would typically partner with in designing relationship marketing strategies.

However, the course does take the point of view that managers need to understand the economics of their businesses and how information can be captured and leveraged to design winning strategies for customer acquisition, development and retention. Students are therefore expected to be comfortable with basic quantitative analysis. In addition, two team exercises will require familiarity with managerial statistics covered in the first-year core (e.g., confidence intervals, regression modeling).

Reading Materials

There is no required textbook for the course. Cases and other readings for the course are included in the coursepack. Additional reading materials will be distributed in class in advance of the relevant class.

The following books provide good reference material on the topics covered in the course.


Grading

Grades will be based on three areas:

1. Class participation: 15%
2. 2 team exercises (team): 10% each, total 20%
3. 4 case writeups (team): 10% each, total 40%
4. 1 class presentation (team): 25%

TOTAL 100%

Students are asked to form teams of 3-4 for working on the team exercises, case writeups and class presentation. Please form teams and communicate them to me by __________. If you need help in forming a team, let our TA know in a timely manner before the above deadline.

Case writeups

Teams should pick any four cases from the following list. The case writeups are due at the beginning of the class on which the case is scheduled for discussion. **Teams should consult the updated class schedule to ascertain the due dates for their cases.**

- Iusacell
- Capital One Financial Corporation
- Harrah’s Entertainment
- Hilton Hotels Loyalty Program
- Hunter Group: Team TBA

Each case writeup should be between 4-6 pages along with supporting exhibits.

Team exercises

All three of the following exercises are required.

- Tuscan Lifestyles – Due Sept 14
- Capital One Product Design – Due Oct 5 (two days before class discussion)
• Intuit Quickbooks Upgrade – Due Oct 17 (two days before class discussion)

Specific questions to be addressed in the case writeups and team exercises will follow.

Class Presentation

Each team should pick one of the topics below for their class presentation. The presentation should be 15-20 minutes long and we will allocate 5-10 minutes for questions and comments from the class.

The class presentation will be graded on the following criteria:

• **Scope**: Topic appropriately scoped to make it a significant learning experience for the team and the class.
• **Fact base**: Appropriate data acquired to support analysis and conclusions.
• **Conclusions**: Compelling conclusions that are well supported by facts and logical reasoning
• **Course linkage**: Use of appropriate concepts, frameworks and examples discussed in the course.
• **Presentation**: Well-structured discussion with clear flow, introduction and conclusions and effective response to questions from class.

If a team has a strong interest in picking a topic not described below, related to relationship marketing, feel free to discuss this with me.

Potential topics for class presentation

1. **Relationship marketing in specific verticals**: Pick an industry that we haven’t discussed extensively in class and where relationship marketing practices have not to date been extensively adopted. Review the current state of relationship marketing in the industry. Why has customer relationship marketing worked or not worked in that industry? Do you expect relationship marketing to have more impact in the future – if so, why? Are there some players who are leading the pack in adopting a customer-focused strategy? What advantage are they wresting from their competition due to their customer focus? And what can other players in the industry learn from them?

2. **Relationship marketing around the globe**: Pick a region of the world where the discipline of relationship marketing is underdeveloped. What has it not had an impact in that region? What barriers will it continue to face there? What relationship marketing-related business opportunities do you see in that region? These could relate to new businesses or to existing businesses stealing a march on their competition by adopting new practices.

3. **Future trends in mass customization**: Identify industries where mass customization (along one or more of the 4 P’s) is likely to emerge as a strong driver of success in the near future. What has restricted these industries from doing mass customization to date? What players within those industries are leading the pack in this area? What are the key
opportunities around mass customization? What are the key barriers to be overcome, and how are they likely to be overcome?

4. **Developing an information-based strategy:** You are starting a new business that intends to compete on the basis of a customer-driven strategy. You may pick the industry/business focus. As you write the business plan for your company launch, you realize it is important to build into the plan your relationship marketing strategy. How will you cultivate distinctive relationships with your customers? What information will you acquire on them and how? How will you use this information to drive your business? How does this compare with what existing players are doing? Will this give you an edge in the market? Is this edge sustainable?

5. **Launching relationship marketing within a traditional business:** TinyBank is a regional bank that has faced tremendous competitive pressure in recent months by the entry of national and global players into its territory. TinyBank has to date functioned along traditional lines with each branch operating as a profit center, responsible for customer acquisition, development and retention. TinyBank’s CEO realizes they need a new strategy with a stronger relationship marketing focus. You have been brought in to develop that strategy. Describe the approach you will use to investigate this issue and develop your recommendations. What are your hypotheses on what the key issues are and where the opportunities to boost performance may lie? What analysis are you going to conduct?

6. **Privacy:** What are the key issues related to privacy that should concern a relationship marketer? Will privacy concerns and regulations be a major barrier to the further growth of relationship marketing? Who is driving the resolution of these issues – government regulations, consumer groups or industry? What new questions or issues on privacy arise due to the emergence of digital channels or due to other technological developments? Can you identify companies who are placing different bets on how privacy will shape their industries?

7. **Business Process Outsourcing:** The BPO phenomenon is at one being applauded for its cost-reduction benefits and vilified for the layoffs it reportedly triggers in the US and other developed economies. One area that has received more limited attention is the impact this has on relationship marketing. What particular challenges and opportunities does BPO bring to relationship marketing? You can investigate the business processes that are being outsourced – such as call centers, back-office processing, analytics, product design and aspects of account management – and how that will impact relationship marketing. Are there examples of companies who are leveraging BPO to improve the effectiveness of their relationship marketing programs? Or of companies who have seen their customer relationships suffer due to BPO? What best practices (and pitfalls) can you identify in how to do BPO the right way from a relationship marketing (as opposed to purely a cost reduction) standpoint?
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<th>CLASS</th>
<th>TOPIC</th>
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<tr>
<td>1.</td>
<td><strong>Introduction</strong>&lt;br&gt; • Principles of Relationship Marketing&lt;br&gt; • Key components&lt;br&gt; • Relevance to different industries&lt;br&gt; • Separating hype from reality&lt;br&gt; • Course details</td>
<td><strong>Required</strong>&lt;br&gt; &quot;A Framework for Customer Relationship Management&quot;, Winer, California Management Review, Summer 2001&lt;br&gt; &quot;Customer Relationship Management: In B2C Markets, Often Less is More&quot;, Dowling, California Management Review, Spring 2002</td>
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<td><strong>Customer Segmentation</strong>&lt;br&gt; • Applications&lt;br&gt; • Methodologies&lt;br&gt; • Implementation issues</td>
<td><strong>Optional</strong>&lt;br&gt; &quot;Preventing the Premature Death of Relationship Marketing&quot;, Fournier et al, HBR, Jan-Feb 1998&lt;br&gt; &quot;Realize Your Customers' Full Profit Potential&quot;, Grant &amp; Schlesinger, HBR, Sept-Oct 1995</td>
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<td><strong>Customer Lifecycle I – Lifetime Value (LTV)</strong>&lt;br&gt; • Estimating LTV value&lt;br&gt; • Key drivers of LTV&lt;br&gt; • How LTV should drive strategy</td>
<td><strong>Optional</strong>&lt;br&gt; &quot;Going the Distance with Telecom Customers&quot;, Braff et al, McKinsey Quarterly, 2003 No. 4</td>
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<td>3.</td>
<td><strong>Marketing Strategies / Economics</strong></td>
<td><strong>Required</strong>&lt;br&gt; CASE: Tuscan Lifestyles&lt;br&gt; Customer Profitability and Lifetime Value, HBS Note</td>
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## DRAFT SYLLBUS FOR SPRING 2005

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| 4. Marketing Strategies | Customer Lifecycle II – Stages of Relationship  | **Required**  <br>{{Do You Want to Keep Your Customers Forever?}, Pine II et al, HBR, Mar-Apr 1995}  
**Optional**  <br>{{The Mismanagement of Customer Loyalty}, Reinartz & Kumar, HBR, July 2002}  
“Managing Marketing by the Customer Equity Test”, Blattberg & Deighton, Jul-Aug 1996  
“Profiting from Pre-paid Phone Customers”, Hommer & Krause, McKinsey Quarterly, 2004 No. 2 |
| 5. Marketing Strategies / Economics | Customer Lifecycle III – Case Discussion | **Required**  <br>CASE: Iusacell (A)  
**Optional**  <br>"Five Keys to Keeping Your Best Customers", Billington, Harvard Management Update, July ’96 |
| 6. Marketing Strategies / Economics | Marketing Effectiveness Across the Customer Lifecycle  | **Required**  
Guest Speaker: Omer Artun, Best Buy |
| 7. Analytics | Testing – I  | **Required**  
"Boosting Your Marketing ROI with Experimental Design", Almquist & Wyner, October 2001  
"This is a Marketing Revolution", FastCompany, May 24, 1999  
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| 8.     | **Analytics**                      | **Response Modeling – I**  
- When to use response models  
- Alternative models  
- How to validate your model  
  
**Required**  
“Predictive Modeling for Non-Statisticians”, Ables, Target Marketing, March 1997  
  
**Optional**  
"Quick Profits with RFM Analysis", Hughes, Database Marketing Institute, May 22 2004  
"How to Succeed with RFM Analysis", Hughes, Database Marketing Institute, May 22, 2004  
"RFM Migration Analysis - A New Approach…", Sellers & Hughes, Database Marketing Institute, May 22 2004  
| 9.     | **Marketing Strategies & Analytics**  
**Customizing the 4 P's – Promotion**  
- Churn management  
- Example of response modeling  
  
**Required**  
“Keeping Mobile Customers”, Bienenstock et al, McKinsey Quarterly  
“Learning from Customer Defections”, Reichheld, HBR, Mar-Apr 1996 |
| 10.    | **Analytics**                      | **Testing II – Discussion of Team Exercise**  
  
**Required**  
CASE: Capital One Product Design |
| 11.    | **Marketing Strategies**            | **Customizing the 4 P's – Place**  
- Channel functions and customer needs  
- Channel strategies for different customer segments  
- Multi-channel integration  
  
**Optional**  
“Making More of Pharma’s Sales Force”, Elling et al, McKinsey Quarterly 2002 No. 3  
“Thinking out of the boXX”, Chan et al, McKinsey Quarterly, 2001 No. 2 |
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| 12. **Marketing Strategies** | Customizing the 4 P's – Price  
- Dynamic pricing  
- Product versioning  
- Other price segmentation strategies | **Required**  
MINICASE: “Coca-Cola’s New Vending Machine (A): Pricing to Capture Value, or Not?”, HBS  
| 13. **Analytics** | Response Modeling II – Discussion of Team Exercise | **Required**  
CASE: Intuit Quickbooks Upgrade |
| 14. **Marketing Strategies** | Target Marketing on the Internet  
- Guest Speakers: David Schwartz & Rudy Grahn, Claria Corp. | **Required**  
CASE: Capital One Financial Corporation  
**Optional**  
| 15. **Marketing Strategies** | Customizing the 4 P's – Product | **Required**  
CASE: Capital One Financial Corporation  
**Optional**  
| 16. **Foundations** | Implementing Relationship Marketing Programs  
- Organizational design  
- Implementation barriers  
- Strategies for success | **Required**  
"Is Your Company Ready for One-to-One Marketing?", Peppers et al, HBR, Jan-Feb 1999  
"Seven Barriers to Customer Equity Management", Bell, Journal of Services Research, 2002  
**Optional**  
"Organizing for CRM", Agarwal et al, McKinsey Quarterly, 2004 No. 3  
“Crouching Customer, Hidden Insight”, Harris & Davenport, Accenture  
"Can Marketing Regain the Personal Touch?", Child et al, McKinsey Quarterly, 19995 No. 3 |
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<td>17.</td>
<td>Foundations</td>
<td>IT/Systems</td>
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<td><strong>Required</strong> MINICASE: They Bought In. Now They Want to Bail Out</td>
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<td>&quot;Avoid the Four Perils of CRM&quot;, Rigby et al, HBR, February 2002</td>
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<td>18.</td>
<td>Foundations</td>
<td>Launching a Direct Marketing Business</td>
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<td>• Guest Speaker: Omer Artun, Best Buy</td>
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<td>Foundations</td>
<td>Implementing Relationship Marketing Programs II – Case Discussion</td>
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<td><strong>Required</strong> CASE: Harrah's Entertainment</td>
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<td>• Types of business relationships</td>
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<td>• Marketing to small businesses</td>
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<td><strong>Required</strong> MINICASE: Pricing Predicament</td>
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<td>“Build Customer Relationships that Last”, Jackson, HBR, Nov-Dec ’85</td>
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<td>“Make Sure Your Customers Keep Coming Back”, DeBruicker &amp; Summe, HBR, Jan-Feb 1985</td>
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<td>&quot;Think Small, Win Big&quot;, Davis &amp; Austerberry, McKinsey Quarterly, 1999 No. 1</td>
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<td>Managing Price, Gaining Profit&quot;, Marn &amp; Rosiello, HBR, Sept-Oct ’92</td>
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<td>&quot;Suppliers - Manage Your Customers&quot; - Myer, HBR, Nov-Dec '89.</td>
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<td>Marketing Strategies / Economics Loyalty/Rewards Programs - Case Discussion</td>
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<td>CASE: Hilton Honors Worldwide: Loyalty Wars (HBS, 9-501-010)</td>
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<td>&quot;Do Rewards Really Create Loyalty?&quot;, O'Brien &amp; Jones, HBR, May-June 1995</td>
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<td>&quot;Loyalty-Based Management&quot;, Reichheld, HBR, March-April 1993</td>
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<td>Guest Speaker – TBD</td>
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