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FINAL THESIS REPORT

**Adding value to the customer through customer relationship management
Case: Ruukki**

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ABSTRACT

Customer Relationship Management (CRM) has grown to a significant part in running a business and managing its customers. Basically, customer relationship management is all about understanding what the customer wants and influencing customer behavior to gain a long lasting and profitable customer relationship.

The thesis is done for the case company Ruukki who supplies metal based components, systems and integrated systems to the construction and mechanical engineering industries. In the recent years Ruukki has moved towards a more customer driven way of operating.

The study focuses on how to add value to a customer through customer relationship management. The research includes qualitative research; the theoretical part consists of information gathered from literature and the case study part consists of existing information of company procedures and observations.

The thesis starts off by introducing customer relationship management in general. After that it moves on to explain ways to add value to the customers. Such value adding methods include creating a long lasting and profitable relationship by getting to know the customers needs and fulfilling those needs with the help of segmentation. Segmentation aids the company to cost effectively treat different customers different.

Since most of the company information concerning Ruukki's current ways of operating are confidential, the public version of the thesis will only include theoretical ideas about customer relationship management and does not go into analyzing Ruukki's current ways of operating.

Key words:	CRM	Customer Relationship	Adding Value
	Customer Database		

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1. Introduction

1.1 Background of the Study

Customer relationship management (CRM) is a crowing subject in the business world of the 21st century. Previously customers were happy to buy what they got offered but now, due to the transparency of businesses and crowing markets customers are becoming more aware and more demanding.

Businesses have to respond to the changing markets by competing for the best customers. The goal is to create profitable long term relationships with the customers and to generate and follow customer strategies that go hand in hand with the business long term strategy. In this thesis common ways of creating such a relationship and adding value to the customer and the business will be studied.

This study originates from a project where a customer relationship management tool is developed and implemented in an organisation. Step by step units worldwide are all unifying their customer data and starting to use the CRM tool. This study aims to present whether it is possible to deepen the customer relationship and add value to the customer through a unified customer data in a CRM system.

1.2 Purpose of the Study

The study is done by using a case company Ruukki which assigned me a task of unifying the customer database in the Ruukki Metals division in Finland.
The purpose of this thesis is to find out how unified operations and a unified customer database will help the company to add value and deepen the customer relationships.
The thesis takes a look at how ways of working in the business have changed after moving into a more customer focused way of operating.
The focus points will be on the ways of creating and deepening a customer relationship and on treating customers differently with the help of segmentation.

1.3 Research Questions

The main research question in this thesis is how value can be added to a customer through customer relationship management. This main questions raises a lot of other issues that deal closely with the value creation process, these include questions such as;

- How can the business manage its customers?
- How to create and deepen the customer relationship to gain long term profit?
- Since every customer is different, how can you treat all the customers differently without wasting the company's resources?
- How a CRM tool can help the business in managing its customers?

1.4 Structure of the Study

The thesis starts of by introducing the case company Ruukki. After this customer relationship management is looked at more closely in chapter three. This chapter will explain what customer relationship management is, why it should be used and how a company can implement it as part of their everyday ways of working.

In chapter four the focus is on creating a customer relationship. The different stages of a customer relationship are explained starting from the creation of the relationship and moving all the way to the termination to the relationship.
Chapter five discusses the process of grouping customers, also known as segmentation. Here, ways of adding value to customers are explained.
Chapter six goes to explain customer databases in general and how they are linked to customer relationship management. In addition, common legal issues are discussed.

The conclusion summarizes the theoretical part of the thesis. In addition, all the findings from the analyzations of current ways of working at Ruukki are drawn together and suggestions for the future are listed.

1.5 The Method of Research

Since in this thesis I have mostly gathered data to create theoretical ideas the research methods were mainly qualitative research.

The theoretical part contains material gathered from literature dealing with customer relationship management, managing customerships and customer databases.

In addition, for the case studies research from existing company processes was carried out. This method of research is also known as participant observation, and it can be defined as a process, where *"the researcher lives or works with the subject of study"* (Davies 2007, 30). The case study includes a lot of participant observation where the employees of the company knew my research role. Hence I was able to see current working practices which helped me to see difficulties and issues and find a solution to those issues.

1.6 Reliability and Validity

The idea for this thesis came up after hearing that Ruukki is changing its ways of operating towards a more customer driven approach. I wanted to research if this change will help in adding value to a customer and hence create a long lasting relationship between the customer and the business.

When researching the ways of co-operating with the customer it was important to be able to find and understand the current ways of working to see how things are done in the company and what the customers think of the company and its service to get reliable results. In this process it was also important to interact with some of the key people in customer relationship management as well as the sales team.

In addition to reliability, validity is also an important part of a research process. It is important that the research results are trustworthy and of good quality. By interacting with different people in the organisation and some basic observation it has been possible to produce valid results.

However, there are some limitations. People perceive things in different ways. It could be that one person finds the current ways of working excellent, another sees all the flaws. By using many different sources I tried to give different sides to the story. Another limitation that can be seen is constructivism, meaning that the data changes depending on the circumstances. One example of this is that a customer could be satisfied with less at one time but at another demands more.

2. Company Presentation

Rautaruukki supplies metal based components, systems and integrated systems to the construction and mechanical engineering industries. The company was established in 1960 and today it has a wide selection of metal products and services. In 2004 with the appointment of the new CEO all companies in the Rautaruukki Group adopted a common marketing name Ruukki which will be use in this thesis when referring to the company.

Today, Ruukki has operations in 25 countries and 14,900 employees. As seen in figure 1, the net sales are crowing on a yearly basis and in 2007 were 3.9 billion EUR.
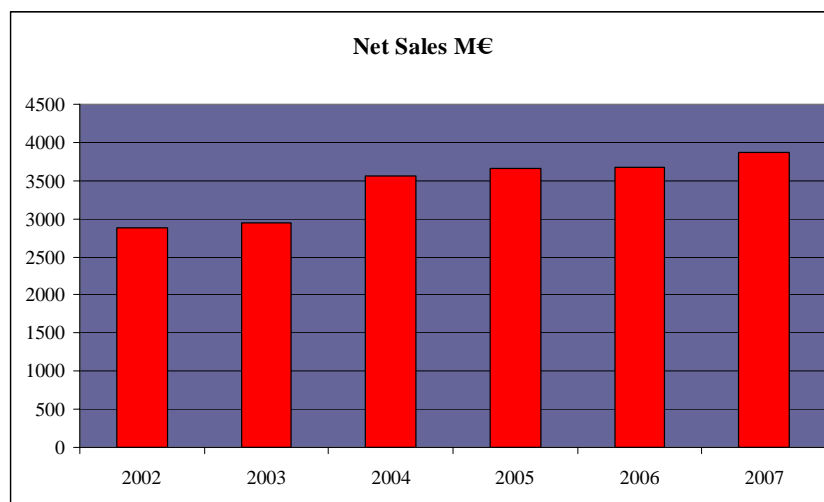

Figure 1 Net sales

Ruukki's operations are divided into four different business divisions; Ruukki Engineering, Ruukki Construction and Ruukki Metals, which will be the focus point of this thesis. Ruukki Metals is also the biggest division bringing in most of the total turnover as seen in figure 2.

The fourth division, Ruukki Production is the supplier of steel products for the other three divisions. Production's products include hot- and cold-rolled plate and strip products, color coated plate and strip products, steel-tubes and cold-formed sections.

Net Sales by Division
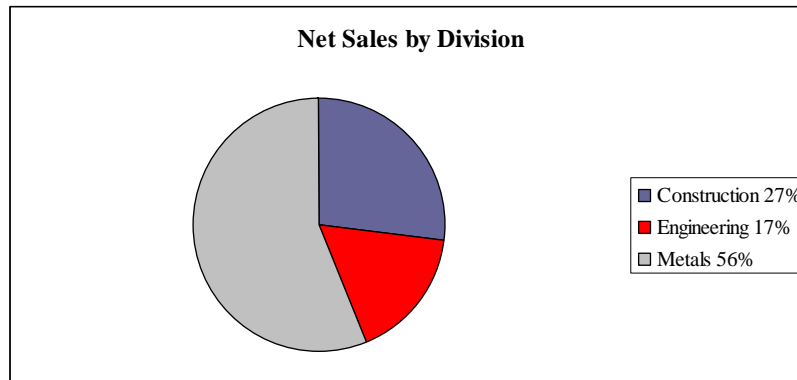
Construction 27%
Engineering 17%
Metals 56%

Figure 2 Net sales by Division

Ruukki Engineering supplies metal-based solutions for lifting, handling and transportation equipment industry. In addition it is a supplier for the energy, marine and off-shore industries as well as for paper and wood processing industries.

Ruukki Construction is the supplier of metal-based solutions for the building and construction industries as well as for infrastructure construction. The focus of Ruukki Construction is on commercial, logistics and industrial buildings.

Ruukki Metals operates in 19 countries and has 1890 employees. The net sales in 2007 equaled 2168 Million € Its products include stainless steels, aluminum and prefabrication services. As mentioned above, this division will be the focus point in this thesis.

Ruukki Metals aim is to offer the customer an outstanding delivery promise. This means that ordered products are delivered on time. In addition the Metals division takes customer's requirements into consideration and due to this, the division is offering a variety of special products, for example high strength, wear-resistant and color coated steels. The growth for special steels is high. Hence, the market has huge potential in the future.

The Metals division is divided into sub sections according to the end customer.

Ruukki aims to be the main supplier of metal-based solutions in Europe to customers in the construction and engineering industry. Figure 3 shows the net sales of Ruukki Metals by region and as can be seen in this figure the core market areas are the Nordic countries, Central Eastern Europe, Ukraine and Russia. Ruukki aims at profitability in all of its actions.
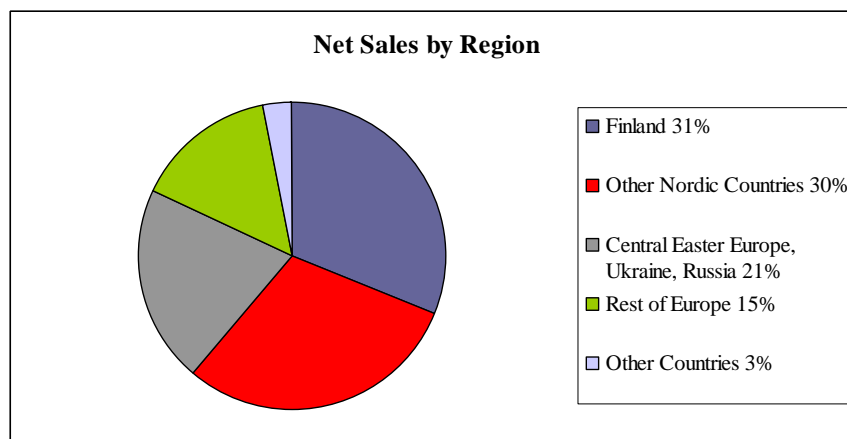
Net Sales by Region

- ■ Finland 31%
- ■ Other Nordic Countries 30%
- ■ Central Easter Europe, Ukraine, Russia 21%
- ■ Rest of Europe 15%
- □ Other Countries 3%

Figure 3 Net sales by region

3. Defining Customer Relationship Management

3.1 What is Meant by Customer Relationship Management?

Every business needs customers to survive. Customer Relationship Management or CRM has grown to a substantial part in running the business and managing its customers (Mäntyneva 2001).

One way of defining customer relationship management is to say that *"Customer Relationship Management is an enterprise approach to understanding and influencing customer behaviour through meaningful communications in order to improve customer acquisition, customer retention, customer loyalty and customer profitability"* (Swift 2001, 12).

As a term CRM is relatively new. First steps in customer relationship management were taken in the late 1980's and early 1990's by the automation of customer service, in other words by switching to so called call centers. This was also one of the fist steps to use technical solutions to serve the customer better (Lehtinen 2004). Hence, rapid changes in the world of internet and technology in general have made customer relationship management more approachable for all businesses (Kumar 2006).

Due to these technological changes it is also becoming trickier to define customer relationship management. In the past some companies invested huge amounts of money in so called CRM systems without really understanding the benefits of such systems. CRM was merely perceived as computers and software without understanding that in reality customer relationship management has always been about understanding the customer and satisfying the customer's needs (Kumar 2006).

Consequently, along the next steps businesses started to focus more on how to add value to the customer. This was done by, for example, collecting data from the customers for marketing purposes to understand them better.

The first organizational steps were not taken until this century when the beginnings in managing from the customer's point of view were taken. Now businesses are moving

into a more customer driven organizations where the values of the customerships are build up (Lehtinen 2004).

Today CRM is perceived as a tool to turn customer information into a relationship from which everybody from sales to marketing and technical customer service can benefit. This is why CRM should be implemented into everything the company does and it should be treated as a part of the business strategy (Swift 2001).

Basically, CRM consists of four different elements; information, process, technology and people.

Information is the basis of customer relationship management. It includes information data such as, the name and phone number of the customer and marketing data – what it is that the customer wants and values.

Processes are the "product" of CRM. These could include things such as all current and future processes that are concerned with the customer, ways by which interaction with the customer is done and the rationalization from the customer's point of view.

Technology on the other hand is simply the equipment to make CRM work. This part is quite self explanatory and includes things such as software, databases and security. This will also be discussed in more detail in chapter six.

Lastly, people are the power supply of customer relationship management.

Each one of these components is important when aiming to successfully implementing customer relationship management (Kincaid 2003).

Ultimately, CRM is merely a process of constantly learning how to better respond to customer's needs, to deepen the knowledge about customers and to use this knowledge to improve customer satisfaction to maximize the life time value of customers to the company. Basically, all activities that turn a casual customer into a loyal one by meeting their needs are included in customer relationship management.

3.2 Why Customer Relationship Management is Important

Changes in the business environment, such as technological changes mentioned above, have lead to greater competition. This in addition to new consumer groups has helped

the customer to gain an important position in the actions a company is ready to take to win a customer over (Swift 2001).

There are several benefits of customer relationship management. The first one is lower cost of procuring the customer. As discussed more in chapter four, customer procurement is the most expensive part in creating a customer relationship. This is because of the need for marketing, reaching out to the customer and fulfilling the customer's needs. With the help of CRM the need for procuring new customers comes less important since a fixed amount of business can be maintained by developing the already existing customer base. It is also typical that existing customers are more approachable than new ones since they are familiar with the line of business and the ways of operating within the business (Swift 2001).

By managing their customers well an organization will also create customer loyalty which often leads to increased sales and through that to increased profit (Swift 2001). However, it has to be noted that this is not always the case since a loyal customer could be loyal just because of specific discounts and services that in the end only harm the business by not being profitable (Kumar 2006). This is why it the focus should be on selecting customers that will be profitable in the long run. This will be done by using an efficient CRM tool.

A customer relationship management tool can gather all the customer data into one place and will help the business to evaluate which customers are profitable and worth putting effort into and which customers cause more harm than bring in profit (Swift 2001). In other words, a CRM tool helps to give an overview of the whole customer base and therefore help selecting the customers with the most potential. This is especially valuable when thinking about the customer strategy as a whole and how it will go together with the company's long term strategy.

3.3 How to Manage Customers

How a business can actually manage its customers to gain long term profitability is a very broad topic and basically the whole focus point of this thesis.

Creating a right customer strategy and actually following it is key to planning how to get long term profit from long term customers. Simply: *"CRM's goal is to increase the opportunity by improving the process to communicate with the right customer, providing the right offer (product and price), through the right channel, at the right time"* (Swift 2001, 14).

This requires a lot of research about who the customers are, what they want and what they value so that the right products can be offered to the right customers. This is a very big and costly process and it will be discussed in more detail in chapter four.
In addition, since it is impossible to offer every customer something different, unless the business has a very small customer base, it is wise to group customers into different segments. In other words, find the customers' similar characteristics that are also relevant fore the business in the customers and group the customers according to these characteristics. Now it is easier to offer different customers, or customer groups, different products and in the process use the business' resources efficiently. Grouping customers will be discussed in chapter five.

It is not possible to implement CRM successfully without a well advised strategy. The goal of strategic customer relationship management is to constantly deepen the knowledge of a customer and use this knowledge to outline the relationship between the business and the customer to gain life time value of the customer (Kumar 2006). In other words, every customer or customer group needs a strategy that goes hand in hand with the business' strategy to meet long term goals.

Sounds simple, but in reality this includes a lot of work thorough out the whole organization. Everyone, from sales to marketing and to managers needs to be involved in the process of implementing the customer strategy. In the next chapters the customer relationship creation process and how to add value using different customer segments will be discussed in more detail to give more insight how it is possible to maximize long term profitability through customer relationship management.

4. Creating a Customer Relationship: a Theoretical Perspective

Basically, customer relationship management is only about choosing the right customers and getting rid of the wrong ones, draw up customer strategies and finally create processes to support these strategies (Storbacka 1999).

The thing that makes this difficult is that all customers are different. First of all, there are many different customer groups. They can be divided roughly into internal and external customers. In his book Swift (2001, 4) defines four different customer groups which are

- *Consumer* is a customer who uses a product or a service.
- *Business to Business* occurs between two businesses instead of a business and a consumer.
- *Channel/Distribution/Franchise* means someone that buys the product to sell or use it as a representative in the area.
- *Internal Customer* is someone within the business who needs the product or service to succeed in its' aims.

It is important to know, which customer group one is dealing with for example for marketing purposes. Ruukki deals mostly with business to business customers but also with internal customers. The focus of this thesis will be on business to business customers.

It has to be remembered that the buying behavior does not stay the same along the customership. This chapter will discuss in greater detail the customer relationship creation process.

In the beginning the relationship the buying behavior is not very strong. Also, changes in the environment, such as price increases might affect the customer's buying behavior. After a customer relationship has been created, the next step is to get the customer to buy more of the product and at the same time be sure that the organization is able to respond to the customer's wants and needs. When the customership reaches a mature state in the life span the focus has to be put on keeping the customer, or getting the customer back if the customer has been lost to a competitor (Mäntyneva 2001).

Understanding the customer is crucial. When an organization has a good understanding of the customer it is easier to predict the customer's buying behavior.

From the customer relationship management's point of view the customership can be divided into four different stages which are shown in Figure 4 below. These stages cover the customer life cycle. The stages are procurement of the customership, taking the customership into possession, development of the customership and retention of the customership (Mäntyneva 2001). These four stages will be discussed in more detail in this chapter.
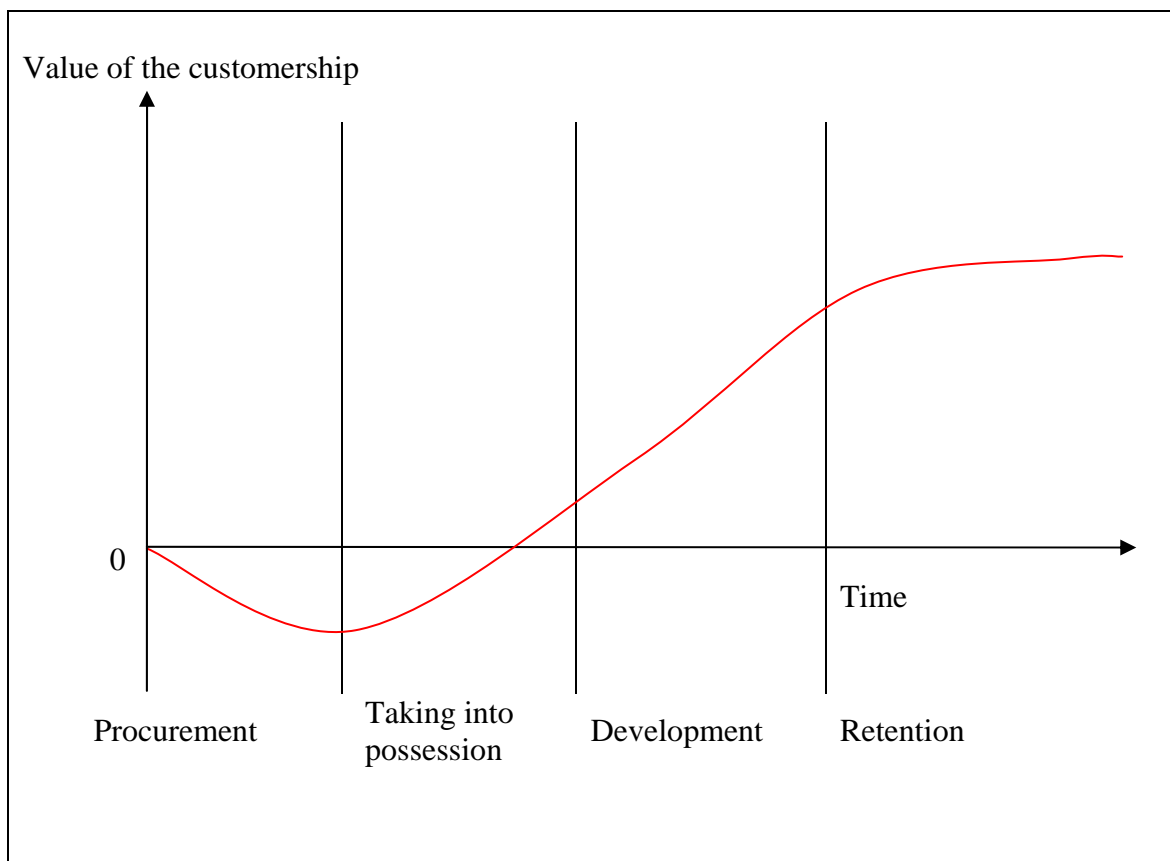

Figure 4 Life span of a customership (Mäntyneva 2001, 17)

4.1 Procuring the Customer

Due to the ever growing transparency of the market businesses are lacking the advantaged of being limited suppliers of a certain product in the market. Hence, the customer has the choice of selecting from whom to buy and with what price (Swift

2001). Customer creation management, CCM, is an interesting part of creating a customer relationship because it contains one of the biggest factor that affects the customer in making future plans about an organization. That factor is first impression. It has been studied that a first impression is very powerful and almost impossible to change, even if it was proven wrong in the future (Lehtinen 2004). This is why customers who a purchasing the first time from a company should not be offered any less service than a long term customers. A dissatisfied customer is always more likely to tell about the reason his or her dissatisfaction to other consumers than a happy, satisfied customer is.

Customers are also getting more aware and want to know about a company's social, environmental and economic responsibilities (Swift 2001) as stakeholders of the company. Customers are more like to choose a company with a positive image or whom they know to be reliable.
In addition, the customers have a need to feel special and they want to be treated as individuals and are not afraid to let the supplier know what it is that they want. This is why things like value, quality and customer care are very important to some customers.

From the business' point of view, the main point in procuring the customer is to make a profitable first sale and at the same time create a customership. To attract new customers the best tool to use is a marketing mix of different channels (Mäntyneva 2001). Sometimes it might be quite easy to procure new customers by using price promotions; however, often this leaves the company with minimum or in the worst case no profit (Swift 2001). Considering long term benefits and profits is key in procuring customers.
The procurement phase is the most expensive stage of creating a customer relationship, since it is not always certain that even spending a lot of money on marketing will produce any loyalty or even a sale (Mäntyneva 2001). Hence, if the company is looking for new possible customers, it should pay attention to the customers who are purchasing for the first time, so that a positive image of the business is created in the customers' minds. However, if possible, it is much wiser to focus on developing already existing customerships (Mäntyneva 2001).

 The best way is to develop a model that states how much focus should be put on procuring customers and how much on developing already existing customerships

In addition, the company has to make sure the customer will be profitable in the long run (Swift 2001). This can be done by offering the customer something the competitors are not able to offer. This could be anything from unique service to personalized products.

The model also helps in determining if the customer is worth spending resources in, for example, product development and marketing (Swift 2001). If it is seen from the start, that the customer has only some future potential, focus can be put on only offering standard products to that customer.

One can see that the customer and the business have very different views in what is important in the procurement stage.

It has to be remembered that customer relationship management is not about guessing what the customer wants and acting according to that but about actually finding out what it is that the customer wants and appreciates in a relationship (Swift 2001).

By focusing on long term benefits and future profit it will help the organization to determine weather a customer is worth investing in.

4.2 Taking Possession of Customership

Since customers have different needs for different products it is essential to fit the product offering as a whole to the customer's wants. Existing products need to be accommodated to customer's needs. This is why the business needs to have a clear understanding what the customer wants and it needs to have resources to satisfy the customer's needs (Mäntyneva 2001). This information can be gathered with the help of market research but also by talking and most importantly listening to the customer. All the information should be gathered into one place, for example a customer database, supported by a CRM tool, so that the information can be accessed easily and updated frequently.

In a way, one of the main tasks for the business in the stage of taking a customership into possession is to learn the customer's practices, ways of working and aspirations. Customers don't just want to be sold to; they also want to be served. The little extra that they are offered is the thing that differentiates one company from another and adds

value from the customer's perspective (Swift 2001). The difficulty is that every customer sees value in different things.

The amount of products that the customer buys from the company also has an effect on the duration of the relationship. If the customer buys all or most of the needed products from the same business it is more likely that the customership is long term than if the customer would only buy one or two products from the supplier (Mäntyneva 2001). This is why product offering is important. The better you know your customers, the better you what products should be offered to what customers and with what price. If it is possible to produce a variety of products according to customer wants the company will gain advantage from competitors who might not be able to do so. However, all actions have to be profitable to the business and not cause a loss of profit.

4.3 Developing the Customer Relationship

The existing customer base might be full of potential that needs to be addressed and taken advantage of. The more a company can focus on the customership the easier it is to recognize the most potential customers that the organization should fully focus on. The main concept of managing customer relationships is to understand the profitability and the full potential of a customer (Mäntyneva 2001). This is done by focusing on the customer strategy as a whole, not just a single customership (Storbacka 1999).

Storbacka defines three different levels on which the development of customer relationships are done.

- *Developing encounters* - An organization has to be able to develop its customer encounter so that they produce customer value and cooperation.
- *Development in the customership level* - The organization has to develop the customership so that it helps the customer to fulfill his wishes. However, the organizations have to be profitable at the same time so ways to combine how to satisfy the customer and act profitable have to e invented.
- *Developing the questions concerning the customer strategy* - Ways to do this might be dividing customers into different segmentations and implement

different customer strategies on each segment (Storbacka 1999, 30). Segmentation will be discussed in more detail in chapter five.

So how does one know what it is that the customer wants and appreciates? One way to help to understand the customer's wants is with the help of customer database. However, the information has to focus on the customer to benefit the organization (Swift 2001). With the help of customer databases all customer information can be collected into one place. By transferring this information into a CRM system it is easy to update the customer data as the relationship develops and to follow up on previous encounters and see what steps should be taken in the future to deepen the customership even more.

A company has to know its customers; who they are and what they want.
"Organizations that place customer information at the core of their information infrastructure exceed their competitor's business profitability" (Swift 2001, 24).
Only this way the company can work towards satisfying the customers' wishes with the right price and the customer will reward the company with loyalty. However, one must remember that the competitor, not just in one sector, thinks the same way and probably sees potential in the same customers so value creation from the customer's perspective is crucial.

4.4 Retention of the Customership

After developing the customership so that the customer and the customer's needs are known and understood it is worth looking at the customers who are likely to switch to use the competitor's service. This information combined with the profitability and potential of each customer will help make decisions concerning customer retention (Mäntyneva 2001). If the customer is seen as a valuable one, certain steps to keeping the customer can be thought of and implemented. One of these steps is developing the customer relationship even further, for example with the help of joint development projects.
In addition, it must be considered what kind of customers the business wants to have and keep (Mäntyneva 2001). If for example the customer in question does not fit in any

of the customer segments it might be wise to think twice weather it is a customership that should be pursued. Once again, the thing that needs to be considered in the end is long term profitability.

It is also important to follow possible changes in the customer's buying behaviour. For example, changes in sales figures or the number of complaints the customer make could be a sign of the customer's desire to change suppliers. Some CRM systems even have the ability to note such changes and alert the organization.

The supplier must take steps already when the customer is only considering the change to a competitor, not just when they take action. Organizations that are able to take warning signals into consideration are more successful in keeping the customer than those who ignore all the signals (Mäntyneva 2001).

However, it has to be remembered that customer satisfaction and loyalty do not always go hand in hand (Storbacka 1999). Sometimes a satisfied customer might change suppliers. On the other hand, for example due to restricted competition it might be that dissatisfied customers stay with the old supplier, even if they are dissatisfied with what they are offered.

Hence, customer satisfaction and the length of a customer relationship will be achieved with investing in both customer satisfaction and ways to keep the customership (Mäntyneva 2001) mentioned in the previous subchapter.

Organization's who have managed long term customerships must constantly develop their own value adding processes and tools (Storbacka 2001). This is the only way to prevent the customer to switch to use a competitor's services.

Because it is relatively easy to react to the discontent of customers by fixing the reason for discontent, it is wise to invest in actions that lengthen the customership. Loyal customers are easier to predict and manage which will for example lead to lower marketing costs (Mäntyneva 2001).

4.5 Customer Relationship Termination

However sometimes customers are lost and relationships are terminated. This could be done by the customer or by the organization.

Customer termination management, CTM, is still a new term for many companies. However, it might be of a great importance so it is important to put some focus into it as well. It is important to recognize the reasons why the relationship is ending (Lehtinen 2004). Is the customer unhappy? Could the relationship still be fixed and could the customer be persuaded to stay in the relationship? Or is it solely the organization's decision to end the relationship for reasons such as profit or new customer segmentation.

According to Storbacka (1999, 42) lost customers can be grouped into three different groups:

- *Customer change suppliers without being that dissatisfied with the current service.* There are multiple reasons for this. One could be that the competitor is simply just able to offer the same product and service at a lower price. In this case it is quite easy for the company to take actions to win that customer back, keeping in mind that a customer who is only chasing low prices might not have any future value.
- *Customers change suppliers because they are dissatisfied with an encounter or one person in the business.* This is already a more difficult issue to deal with. It could be that the customer is delivered the wrong products time after time, or that the deliveries are constantly late. The best solution for this is to find the reason for the customer's discontent and fix it. In some cases it might be an easy thing to do, other times it might be close to impossible. If the reason for the dissatisfaction can not be fixed, it might be the easiest to let that customer go, since the customer's want can not be met and hence there is no future value.
- *Customers feel that the business is not adding value for them.* It is impossible for the business to meet everyone's needs. This is why some customers might feel that the business in not adding value for them.
  This should only be taken seriously if a lot of customers feel that way since it will easily take a way the competitive advantage of that business (Storbacka 1999).

The most important thing about customer relationship termination is that no matter how the customership is ended or who ends it, it should be ended on good terms (Lehtinen 2004). The reason for this is the same as was already discussed in customer relationship creation process with first impression. A dissatisfied customer is always more likely to share the reasons for dissatisfaction with other potential customer. Hence, a customer relationship that is ended in bad terms could eventually lead in harming the company.

5. Grouping Customers

As mentioned in the last chapters, every customer is different. That is why no customer should be treated the same as another. For a business it is simply impossible to give individualized service to each customer because of limitations in resources and finance. So how can a business serve the needs of a single customer yet individualize its service? One way of doing so is by grouping customers into different segments. Grouping can be done based on different reasons, the most common today being the current and future value of the customer.

By having similar customers in one group or segment the business will have an opportunity to treat different segments in different ways and hence give individualized service to customers. This chapter will focus on different ways of grouping customers and the benefits that come from having a strong customer portfolio.

5.1 What is Meant by Grouping Customers?

Customers need to be grouped because that is the only way to build an individualized relationship between the business and the customer when dealing with thousands of customers, sometimes even worldwide (Kincaid 2006).

The basis for grouping customers is the dissimilarity of each customer. If all customers would value the same things and buy the same amount of the same products, grouping would be unnecessary. Grouping customers also gives the business an advantage to determine new products and customer processes based on the differences of each group (Storbacka 1999).

Usually most of the business' customers are only moderately profitable. The smallest amount of customerships is divided between unprofitable and highly profitable. Hence, the smallest amount of customers brings in most of the profit. Pareton has come up with the 80/20 principle, that 80 per cent of all the profit comes from 20 per cent of all the customers (Mäntyneva 2001).

So why is it not possible for a company to have only profitable customers? This is due to the fact that it is impossible to completely satisfy the needs of all customers and still

be profitable in the long run. This is why a company should recognize the most profitable but also the least profitable customers and treat them differently. For example, an option could be to offer a wider product range to the more profitable customers at a better price than for the less profitable ones.

An important reason for grouping customers is that every business wants to achieve its corporate business goals, which are not just revenue and profit, but also the direction where the business should be going in the future. The future direction could include for example new markets; product wise or geographically. These goals can only be met by following the right strategy by bringing on the right customers (Burnett 2001).

After recognizing different customer groups it is important to draft separate customer strategy for each group of customers and to create customer processes to support these strategies (Storbacka 1999). These customer strategies should follow the businesses' own strategy so that future goals can be met.
Customer grouping is better known as segmentation. The next chapters will look more into what it is meant by it and how it is actually done.

5.2 Segmentation

The segmentation of a large customer base is always difficult. It is especially difficult when dealing with business to business customers. In many cases one product can be used in several different ways. An efficient customer database will help the business with the segmentation process by having all its customer data in one place.

Segmentation also has many benefits for the business. Segments will help businesses to understand the market place as a whole; who the customers are, how do they buy and what are the reasons for the purchases. In addition, segmentation will help the business to simply focus on the customer groups that will benefit the business and help it reach its future goals. Also, segmentation will give the business an overview on what strategies it has to follow to gain and maintain competitive advantage (Kasturi, Shapiro, Moriarty 1995).

One way of defining segmentation is *"Customer segments are groups of customers who look like one"* (Kincaid 2003, 296). The problem is to find the thing that the groups have in common, especially when dealing with a large customer base. If the segmentation bases are irrelevant the segments are doing more harm than good for the business. In addition the benefits of different segments are also lost if the segments are narrowed down too much or too little. There is no use having only a few customers from thousands in one segment and the rest in another. The business must think what qualities of the customer it finds important and worth focusing on.

Customer relationship management in general is about treating every customer as an individual. In practice however, this means that similar customer groups or segments are treated the same way. Segmentation will help the business save resources but still make the customers feel special. The next chapter will take a look in some ways in which customers can be grouped.

5.3 How to Group Customers

Customers can be grouped based on basically any characteristic as long as the members in the group have the same values and react to offers the same way.
Traditionally with consumers the basis of customer segmentation has been demographic attributes such as age, sex, location or socio-economic attributes such as family size, education income. A new basis, psychographic attributes such as values, hobbies and lifestyle have also become a popular tool for segmentation (Storbacka 1999).
These bases of segmentation might work fine for a consumer but not for a business to business customer to whom other characteristics for segmentation have to be used. These could be, for example, the function of the company, the industry, buying behaviour or financial criteria. However, it has to be remembered that even a business to business customer has a person behind it and should be treated as a consumer would.

In addition, another important thing to consider when segmenting customers is the value the customer adds to the business in the long run (Kincaid 2003). Customer relationship management will help the business to recognize these characteristics and hence help pick out the most profitable customers (Mäntyneva 2001).

It is important that the right characteristics, that are the basis for the different segment, are relevant. Since it is possible to basically pick any characteristic, the organization has to know what it is they want from their customers before starting to group them. The customer characteristics used in different segments have to help the business to understand the customer better and predict something about the customer's future buying behaviour (Kincaid 2003).

The success of customer relationship management is determined by how well the business has been able to use the information about their customers to forecast customer behaviour in the future. Naturally a company only wants to deal with customers who will provide the highest return in the future (Kincaid 2003).

That is why recognizing the right customer is just one part of segmentation. The other one is to recognize the wrong customers that can not be fitted into chosen segments and ending the relationship. For example, a customer who only buys when it is possible to get a discount and is ready to switch suppliers because of the price is not worth keeping since there is no long term value. Another type of customer that has no long term value could be someone whose needs can't be met by the business (Storbacka 1999) or whose strategic goals differ from the future goals of the business.

Segmentation is only possible when the customer is known well enough so that it is possible to recognize specific groups that would react in the same way. After defining these groups, or segments it is possible to place each customer into a segment.

After this the segments have to be ranked depending on exact characteristics that have been chosen to be important. This process is called scoring (Kincaid 2003). Basically, the business will decide which segments are the most important ones and should be focused on and which on the other hand can be left without that much attention.

6. Customer Databases and CRM

This chapter will focus on discussing in more detail an important part of customer relationship management; customer databases. As mentioned earlier, in the past CRM was seen more as a software application that as the total understanding of customer's needs.

This thesis has been focusing on the subject of understanding the customer and it has gone deeply in the subject of explaining how to understand what the customer wants and how to add value to the customer. Now it is time to look into the more technical part evolving around customer relationship management. In this chapter the main discussion will be on customer databases and some legal issues that need to be thought of in the process of creating a customer database.

6.1 Customer Databases

A proficient CRM system can help the business a lot when trying to manage the customers more efficiently. However, the system is nothing without the actual customer data, meaning all the information there is about one customer.

"A customer database is a collection about a company's customer" (Kumar 2006, 146). The technological advantages have been ever growing in the past years and that has made it possible for businesses to collect and analyze large amounts of customer data from both current and possible customers. This process of gathering and evaluating data will lead to a company to have an excellent customer database (Kumar 2006).

The technology available today does allow a business not only to collect and store data but also communicate with the customer. This way the business can have flexible customer-level reactions (Kumar 2006) and thus the business is always able to serve the customers to exactly match their needs.

One can see that good software or IT in general is a crucial part to business to efficiently manage their customers. An effective customer database really is a necessity in successful customer relationship management.

A customer database usually includes basic information of the customer. This comprises things such as name, address, phone number and so on. In addition, the information often also includes demographic information such as age and sex and psychographic information such as values and interest (Kumar 2006). As can be seen, these were also the three most common criteria used in customer segmentation. Hence, an efficient customer database really helps when trying to get to know the customer before grouping them into different segments.

Other information often included in the database is history of previous purchases; what a customer bought, how much and how often (Kumar 2006). This gives a great overview of the customers buying behaviour and hence will help the business in forecasting future buying behaviour.

Like mentioned above, the customer database should also include information about possible future customers. This means people who could possibly be customers in the future. Prospect databases are also valuable in the customer relationship creation process. The more information a business has about a possible future customer the easier it is to already to know what is valued by the customer when approaching them.

When working with customer databases one has to be careful with some of the information it contains about customers. Especially a lot of information might have been gathered from long term customers, from which some could be quite sensitive. The next chapter will discuss some main legal issues there are when dealing with customer databases.

6.2 Legal Issues

"The Finnish Constitution guarantees every citizen's private life and honour and the sanctity of the home. The protection of personal data is stipulated in detail by an act" (Data Protection in Finland).

The Personal Data Act aims to develop people's opportunity to be in charge of their private information. Every person has a right to know if their personal data is handled and how and why that is done (Data Protection in Finland).

The Personal Data Act defines personal data as *"any information on a private individual and any information on his/her personal characteristics or personal circumstances, where these are identifiable as concerning him/her or the members of his/her family or household;"* (Personal Data Act (523/1999) 3.1 §).

Because of advanced steps taken in technology, communication through various channels is becoming more common, the need for people to protect their privacy by controlling the distribution of their personal information is important in today's world (Data Protection in Finland). The Personal Data Act defines the distribution of personal data as *"the collection, recording, organisation, use, transfer, disclosure, storage, manipulation, combination, protection, deletion and erasure of personal data, as well as other measures directed at personal data;"* (Personal Data Act (523/1999) 3.2 §).

The Personal Data Act took effect on June 1 1999 replacing the Data File Act from 1998. The main point stayed the same; the new act was merely constructed to adapt the EU Data Protection Directive (Directive 95/46/EC) of the European Parliament and the Council of 24 October 1995 (Legislation; For the Protection of Privacy)
In addition to the Personal Data Act there are also other laws and acts that are involved with treating personal data. These include The Act on the Openness of Government Activities that controls the access to public registers and the Act on the Protection of Privacy and Data Security in Telecommunications (Legislation; For the Protection of Privacy).

The objectives of the Personal Data Act are *"to implement, in the processing of personal data, the protection of private life and the other basic rights which safeguard the right to privacy, as well as to promote the development of and compliance with good processing practice"* (Personal Data Act (523/1999) 1 §).
The Act states that the personal data must be handled lawfully and carefully so that the person's right to privacy is not restricted (Personal Data Act (523/1999) 5 §). Also, the reason for handling a person's data must be validated. This means that a reason for handling someone's personal information must be defined before data can be collected to a business' file (Personal Data Act (523/1999) 6 §).

Hence, a business must take the issue of privacy into consideration when creating a customer database. The information collected from the customer must be relevant.

Information not concerning the business must not be collected and stored. Sometimes it might be hard to draw a line between the relevant and irrelevant information since in the process of understanding the customer better the more information one has of the customer the easier it is to meet the customer's needs.

However, some information defined private by the Personal Data Act include the ethnicity, political, or religious views, or state of health just to mention a few (Personal Data Act (523/1999) 11 §). However, there are exceptions to this, for example if the person has given permission to collect certain private data (Personal Data Act (523/1999) 12 §).

All in all, no matter what information is collected, the business has to be certain that all customer data is handled respectfully and in confidence.

When a business has collected personal data from its customers it has also ensure that the personal data is secured against unauthorized access by using technical or organizational measures (Personal Data Act (523/1999) 32 §). These measures could include different user levels, so that just the people needing the data in their work can access the data. Also, a common way to secure data is by personalized usernames and passwords.

In addition to security measures the business has to make sure that the people involved in collecting the data do not disclose the information to a third party (Personal Data Act (523/1999) 33 §). This is often regulated by confidentiality agreements that employees are asked to sign upon joining the business.

In the end, when the personal data file is no longer needed it has to be destroyed or in some cases transferred into an archive (Personal Data Act (523/1999) 34 §).

It can be seen that collecting and storing information into a customer database is not as simple as it sounds. Many legal steps have to be taken into consideration to protect the privacy of customers.

Advances in technology have made it easier to collect and store customer data safely, since it is easy to lock it behind passwords giving access to authorized personnel only. The advances in technology have made it also easy to record just the relevant information and make it easy to search.

As a conclusion, when dealing with customer's private information the most important thing is to make sure that the information stays safe.

7. Conclusion

Because of growing competition and the transparency of markets, customer relationship management has become an important subject for businesses.
Customer relationship management is all about understanding and influencing the customers by communicating efficiently to gain a long lasting and profitable relationship with the customer.

The basis of customer relationship management is clear and versatile customer data that is collected and stored into a customer database and used as the basis of a CRM system for everyone in the company to see and use. The CRM system will be helpful when creating a relationship; it will give an idea to the business what the customer wants and needs. The business needs to aim at creating a relationship with customers that have the same future goals. This way the customer strategy will not clash with the company's long term strategy.

After a relationship has been created it needs to be maintained and developed so that the customer is not lost to a competitor. Every customer is different and as so, should be treated differently. Basically this is not possible because of limited resources. This is why common characteristics among the customers should be determined and the customers should be grouped into different segments according to these characteristics. This characteristics are easy to spot when the entire customer data is in one place; a CRM system. With the help of segments different groups of customers can be offered only the products they value, and hence add value to the customer by individualized service. This will result in a strong, long lasting relationship and future profit for the company.

The thesis was done for the case company Ruukki who is the supplier of metal based components, systems and integrated systems to the construction and mechanical engineering industries. In the recent years Ruukki has developed its operations towards a more customer driven organization. This thesis focuses on the Ruukki Metals division.

Most of the information concerning the company and its current ways of operating was confidential and was not included in the public version of the thesis.

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