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## **Plan to improve the customer relationship management of the cosmetics company Z**

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Master in Applied Management

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August 2023



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Management

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## **Abstract**

Company Z is a young Chinese cosmetic company, engaged in the research and development, production, and sales of cosmetics products. The company is an emerging Chinese cosmetic brand, and its concept is to create pure and natural Clean Beauty products with safe and green ingredients.

Since its establishment in 2020, Company Z has focused on product development, while ignoring CRM, and it has not set up a professional CRM system so far. The brand was unable to establish effective communication and links with costumers, do not know enough about them, and did not build a clear customer portrait. It is the poor customer relationship management that leads to unstable customer traffic at the store, low amount per customer transaction, as well as lower frequency of repeat purchases and other problems. The main goal of this project is to develop a plan to improve the CRM of Company Z.

To achieve this goal, this thesis conducts a literature review of the relevant aspects of CRM, and analyzes the internal and external environments of Company Z. Through the statistical analysis of the real sales data of Company Z, it was understood the costumer's consumption habits and preferences. Based on the IDIC model, it is formulated a plan to improve the CRM of Company Z, including a set of actions, the schedule and budget for implementation, as well as the goals and assurances.

**Keywords:** Cosmetics, Customer Relationship Management, Chinese Market, IDIC Theory, Decision Tree

**JEL Classification:** M39

## **Resumo**

A empresa Z é uma jovem empresa de cosméticos chinesa, que se dedica à investigação e desenvolvimento, produção e venda de produtos cosméticos. A empresa é uma marca de cosméticos chinesa emergente e o seu conceito é criar produtos Clean Beauty puros e naturais com ingredientes seguros e ecológicos.

Desde a sua criação em 2020, a empresa Z tem-se concentrado no desenvolvimento de produtos, ignorando o CRM, e até agora não criou um sistema de CRM profissional. A marca não foi capaz de estabelecer uma comunicação e ligações eficazes com os clientes, não os conhece suficientemente e não construiu um perfil claro do cliente. É a má gestão da relação com o cliente que leva a um tráfego instável de clientes na loja, a um baixo valor por transação do cliente, bem como a uma menor frequência de compras repetidas e a outros problemas. O principal objetivo deste projeto é desenvolver um plano para melhorar o CRM da Empresa Z.

Para atingir este objetivo, esta tese realiza uma revisão da literatura sobre os aspetos relevantes do CRM, assim como analisa os ambientes interno e externo da Empresa Z. Através da análise estatística dos dados reais de vendas da Empresa Z, foi feita uma análise dos hábitos de consumo e as preferências do cliente. Com base no modelo IDIC, é formulado um plano para melhorar o CRM da Empresa Z, incluindo um conjunto de ações, o calendário e o orçamento para a implementação, bem como os objetivos e as garantias.

**Palavras-Chave:** Cosméticos, gestão da relação com os clientes, mercado chinês, teoria IDIC, árvore de decisão

**JEL Classification:** M39

## Table of Contents

<b>ACKNOWLEDGEMENTS.....</b>	<b>I</b>
<b>ABSTRACT.....</b>	<b>II</b>
<b>RESUMO.....</b>	<b>III</b>
<b>TABLE OF CONTENTS .....</b>	<b>IV</b>
<b>LIST OF TABLES.....</b>	<b>VI</b>
<b>LIST OF FIGURES.....</b>	<b>VII</b>
<b>GLOSSARY .....</b>	<b>VIII</b>
<b>1. INTRODUCTION.....</b>	<b>1</b>
<b>2. LITERATURE REVIEW.....</b>	<b>3</b>
2.1. CONCEPT OF CRM .....	3
2.2. OBJECTIVES OF CRM .....	4
2.3. TYPES OF CRM.....	5
2.4. MODELS OF CRM .....	7
2.5. CUSTOMER LOYALTY .....	10
2.6. CONSUMER BEHAVIOR .....	11
<b>3. METHODOLOGY .....</b>	<b>13</b>
<b>4. CUSTOMER RELATIONSHIP MANAGEMENT PLAN.....</b>	<b>15</b>
4.1. EXECUTIVE SUMMARY.....	15
4.2. COSMETIC MARKET ANALYSIS.....	15
4.2.1. <i>The Chinese Cosmetic Market</i> .....	15
4.2.2. <i>Competitor Analysis</i> .....	19
4.2.3. <i>Porter's Five Forces Analysis</i> .....	22
4.2.4. <i>Cosmetic Market Trends</i> .....	27
4.3. INTERNAL SITUATIONAL ANALYSIS .....	31
4.3.1. <i>Characterization of the company</i> .....	31
4.3.2. <i>Mission, Vision and Values</i> .....	32
4.3.3. <i>Positioning and Targeting</i> .....	33
4.3.4. <i>Products</i> .....	34
4.3.5. <i>Pricing and placement</i> .....	35
4.3.6. <i>Promotion</i> .....	36
4.3.7. <i>Customer Relationship Analysis</i> .....	36

4.3.8.	<i>Customer Profile Analysis</i> .....	39
4.4.	SWOT ANALYSIS .....	45
4.5.	CRM PLAN OBJECTIVES .....	46
4.6.	IDIC MODEL.....	46
4.6.1.	<i>Identify</i> .....	46
4.6.2.	<i>Differentiate</i> .....	50
4.6.3.	<i>Interactive</i> .....	54
4.6.4.	<i>Customize</i> .....	56
4.7.	SCHEDULE AND BUDGET .....	59
4.8.	ASSURANCE AND ASSESSMENT OF THE CRM PLAN .....	61
<b>5.</b>	<b>CONCLUSIONS</b> .....	<b>63</b>
	<b>BIBLIOGRAPHY</b> .....	<b>64</b>

## List of Tables

Table 2.1 Types of CRM, Definition and Characteristics .....	5
Table 2.2 Four Steps of CRM Strategy .....	9
Table 4.1 Market share of top 10 domestic Chinese skincare brands .....	19
Table 4.2 Market share of top 10 domestic Chinese make-up brands.....	20
Table 4.3 Main competitors .....	23
Table 4.4 New Technologies Used by Global Cosmetic Brands .....	29
Table 4.5 Product Price List of Cosmetic Company Z .....	35
Table 4.6 Original Sales Data for Z's Stores May 1, 2023 to May 7, 2023 .....	41
Table 4.7 Software Language Code Translations for Decision Tree.....	42
Table 4.8 Decision Tree's Sample Table (Amount Per Customer Transaction) .....	42
Table 4.9 Decision Tree Classification Results (Amount Per Customer Transaction)....	43
Table 4.10 SWOT Analysis for Company Z .....	45
Table 4.11 Decision Tree's Sample Table (Repurchase or Not) .....	47
Table 4.12 Decision Tree Classification Results (Repurchase or Not) .....	48
Table 4.13 Customer Identification Characteristics Table of Company Z .....	49
Table 4.14 Differentiated CRM in Company Z .....	50
Table 4.15 Sample data table of product association relationships .....	57
Table 4.16 Calculation results of product association rules for company Z .....	58
Table 4.17 Table of products and codes involved in association rules .....	58
Table 4.18 Company Z's CRM Improvement Action Plan and Budget Table .....	60

## List of Figures

Figure 4.1 Size and Growth Rate of China's Beauty Market, 2016-2025.....	17
Figure 4.2 Size and Growth Rate of the Facial Skin Care Industry in China, 2018-2025	18
Figure 4.3 China Men's Skincare Market Size .....	30
Figure 4.4 Mens that used skin care/ makeup products, in 2021 (%) .....	31
Figure 4.5 Decision Tree Classification Result Model Diagram (Amount Per Customer Transaction).....	43
Figure 4.6 Decision Tree Classification Result Model Diagram (Repurchase or Not) ....	48

## **Glossary**

AI - Artificial Intelligence

AR - Augmented Reality

CNY – China Yuan

CRM - Customer Relationship Management

CVM - Customer Value Management

ODM - Original Design Manufacturer

OEM - Original Equipment Manufacturer

R&D - Research and Development

RMB - Renminbi

Z's store - Company Z's Offline Store

## 1. Introduction

With China's economic development, the cosmetics market is showing a growth trend. Since 2013, China has become the second largest cosmetic consumption market in the world with great potential. Previously, the market share of Chinese cosmetic market was mainly occupied by L'Oreal, Estee Lauder and other international brands. Nowadays, the number of Chinese cosmetic brands have increased, and the domestic cosmetic products continue to develop, and gradually seize the market share.

Founded in 2020, Company Z is a 100% Chinese company engaged in the manufacture and operation of cosmetics, whose products are categorized into skincare and make-up products. With outstanding product quality and the product concept of pure beauty, Z Company has been recognized by the market and customers. With the post epidemic era ushering in an economic recovery and continued growth in consumption levels, Company Z has entered a period of rapid growth.

Despite its rapid growth, Company Z has limitations and bottlenecks. Through the diagnosis conducted in this thesis, it was found that Company Z has problems with its CRM, resulting in unstable customer traffic, slow growth in sales performance, low amount per customer transaction, and low frequency of repeat purchases. So, the main goal of this project is to develop a plan to improve the CRM of Company Z.

With the implementation of this plan, it is intended that Company Z reaches the following objectives: 20% sales growth in 2024 compared to 2023. 50% increase in new APP registrations. Increased customer loyalty and 20% increase in customer repurchase rate.

In order to achieve this goal, this thesis conducts a literature review of the relevant aspects of CRM and analyzes the internal and external environments of Company Z. A statistical analysis of the real sales data of Company Z is done to understand the customer's consumption habits and preferences. Based on the IDIC model, it is formulated a plan to improve the CRM of Company Z, which includes a set of actions, the schedule and budget for the implementation, as well as the goals and assurances.

In terms of research methodology, this project adopts the literature review method, case study method, interview method and business data analysis method. In the data analysis method, it is used Decision Trees, performed on the software WEKA 3.86.

This thesis consists of 5 chapters. Chapter 1 describes the background, problem, objectives and methodology of this project. Chapter 2 describes the literature review, including six topics: Concept of CRM, Objectives of CRM, Types of CRM, Models of CRM, Customer Loyalty and Consumer Behavior. Chapter 3 details the research methodology used in this project. Chapter 4 includes the CRM plan, which begins with an executive summary, domestic

market analysis, internal situation analysis of Company Z and SWOT analysis. Then, the objectives of the CRM program are formulated, and based on the IDIC model and the analysis of Company Z's sales data, recommendations and action plans are presented. Finally, schedule, budget, assurance and assessment of this CRM program are given. Chapter 5 is the conclusion of this thesis.

## **2. Literature Review**

This chapter describes several important topics related to Customer Relationship Management (CRM), starting with the concept of CRM, which is defined according to different scholars. Then, the Objectives, Roots, Types and Models of CRM are presented. Finally, it is introduced two topics that are important for a company's marketing strategies and plans, Customer Loyalty and Consumer Behavior.

### **2.1. Concept of CRM**

The roots of CRM can be traced back to the concept and development of Relationship Marketing, which requires good commitment and trust. Levitt (1975), a Harvard Business School professor and an economist, introduced the concept of Marketing Myopia. He believed that companies should focus on satisfying customers' needs, not just selling products, and that companies should be organisms oriented to create customers and satisfy customers, that is, companies should be customer-oriented. The responsibility of a company is not to produce products, but to acquire customers. According to the author, the concept of creating customer value must be extended to every corner of the company.

According to Morgan and Hunt (1994), relationship marketing emphasizes building, developing and maintaining successful customer relationships, facilitating communication to increase customer loyalty and generate sustainable competitive advantage.

Drucker (1995) emphasizes the importance of Customer Centricity in business. He argued that customer determines what the company is, what it produces, and what value it has. The purpose of a company is to create customers and keep them, and customer satisfaction should be the purpose and driver of all business decisions pursued. This philosophy lays the foundation for a customer-centric approach to management, which is the heart and root of CRM.

According to Sharp (2002), CRM is a capability that requires a company to be able to deal with every customer, increase customer loyalty, reduce customer churn rate, and increase the company's profitability. According to Kotler and Keller (2004), CRM is a way for a company to build stronger bonds with its customers in order to maximize customer loyalty. Chalmers (2006) proposed that CRM is a business strategy that requires a company to integrate sales, marketing, and customer service in a customer-centric way; this strategy is designed to help the company and its customers create value and increase value.

Kotler and Keller (2009) improve on previous interpretations of CRM by focusing more on the customer, requiring companies to build deep, lasting long-term relationships with their

customers, understanding their capabilities, resources and needs. Bulton (2019) also puts the customer first, arguing that CRM is about understanding customers in the market, meeting their expectations and exceeding their expectations, create lasting relationships between the company and the customer in order to achieve the organizational goals. Pearce (2021) agrees with this statement and presents a view related to customer data. He argues that CRM systems are a Digital Processing Technology built on CRM programs, but the key issue is how the company understands its customers through their data. So CRM is a business strategy, a strategic planning and management, and the core element is to put the customer at the center.

Specchia (2022) states that CRM is more than just a software, tool and technology; it is a holistic way of thinking and is at the heart of today's marketing strategy. The scope of CRM encompasses the entire marketing process, not just a simple way to contact with customer.

In conclusion, the development of CRM theory began with the focus on "Relationship" and many scholars have affirmed the importance of the Customer. Thus, the core of CRM theory is customer centricity. With the development of the digital era, companies should pay more attention to customer information and data, rather than just studying customer consumption performance and behavior.

## **2.2. Objectives of CRM**

According to Swift (2001), the goal of CRM consists of four "right" elements, that is, a good CRM is about providing the right product, offer it to the right customer at the right time, through the right channel.

The key objective of CRM is to build a relationship with every customer, understand their habits and needs, and anticipate their buying patterns. To put it simply, it is all about customer focus, attracting, retaining and motivating customers (Sharp, 2002).

Kottler and Keller (2009) proposed that CRM allows companies to provide their customers with real-time customer service, which is based on effective information about the customer's personal account.

On the other hand, Verhoef and Lemon (2011) argued that Customer Satisfaction is important, and the goal of CRM is long-term customer retention with an emphasis on customer satisfaction; and, thus, CRM can be further extended to Customer Value Management (CVM). Peppers and Rogers (2016) agreed with this statement, arguing that the core objective of CRM is to increase the value of the customer and retain customer.

Peppers and Rogers (2016) argued that the objective of customer management is to add value to the customers. Placing a focus on the customer as the competitive advantage of the company, and creating new shareholder value only by maintaining and increasing the value of

the customers, it is a continuous process and a strategy that puts customer value and relationships first.

Pearce (2021) provides a more detailed explanation of the objectives of CRM, arguing that the implementation of CRM can achieve the following business goals: help the company to create a category of "best customers", develop products or services that meet the needs and desires of customers, develop new customers with minimal cost, and maintain optimal communication and contact with customers. It can also increase the company's sales capacity and performance, improve its productivity, and reduce marketing costs by using accurate marketing techniques. CRM uses data analysis in a timely and accurate manner to help strengthen the company's ability to make decisions, reduce the occurrence of out-of-control events, and reduce risk.

Advances in technology have played a key role in deepening the implementation of CRM. Advances in database management systems, customer data analysis tools and automation technologies have made it possible for companies to efficiently access, analyze and utilize customer information to achieve effective management of customer relationships. From the beginning of the century, CRM technology has become an integral part of CRM.

### 2.3. Types of CRM

There are various types and approaches that companies can use to manage customer relationships, and these types of CRM are not exclusive to each other, they can overlap or complement each other.

According to Buttle (2008), there are four types of CRM: Strategic CRM, Operational CRM, Analytical CRM, and Collaborative CRM.

Table 2.1 Types of CRM, Definition and Characteristics

Type of CRM	Definitions and characteristics
Strategic CRM	Strategic CRM is a core customer-centric business strategy that aims at winning and keeping profitable customers.
Operational CRM	Operational CRM focuses on the automation of customer-facing processes such as selling, marketing and customer service.
Analytical CRM	Analytical CRM focuses on the intelligent mining of customer-related data for strategic or tactical purposes.
Collaborative CRM	Collaborative CRM applies technology across organizational boundaries with a view to optimizing company, partner and customer value.

Source: Buttle (2008)

### **Strategic CRM**

A company with a strategic CRM is customer oriented, that is, the customer always comes first. The core is to create and provide value to the customer, allocating corporate resources to enhance customer value. Buttle (2001) also mentions that important customers have strategic meaning to the company, it is important to develop and maintain long-term mutually beneficial relationships with these customers. Gartner (2001) suggests new business processes and approaches in CRM, which put customer first. Kale (2004) supports this view, stating that CRM can provide a unique strategic capability for companies, and that successful CRM has a customer-centric vision, understanding the customer lifetime value, and it must have support from top management. Payne and Frow (2005) agree with the above scholars and claim that Strategic CRM creates higher shareholder value by building relationships with key customers, and by using data and information to understand customers and create more value with them.

### **Operational CRM**

This type of CRM is customer-facing and customer-supporting automated business processes. It contains three aspects: Marketing automation, Sales automation, and Service automation. Marketing automation is the application of technology to the process of marketing, where marketers can use data for marketing campaigns and marketing management. Sales automation is the original form of customer relationship management that uses software technology to manage a company's sales activities and is characterized by automation and standardization. Service automation enables companies to use software to manage their service operations and to coordinate and handle service-related processes (Buttle & Maklan, 2009). According to Greenberg (2010), Operational CRM involves managing customer touch points, automating them through technology, using data to understand customers and support customer management, and can even include the use of data to measure the performance of employees who have contact with customers.

### **Analytical CRM**

It is a management approach based on data analysis. It focuses on collecting, storing, processing, and analyzing a range of data related to the customer, deriving knowledge from it, and applying it to business processes and products or services, to increase the value of the customer and company. Understanding the customer through data analysis has become the basis for many operational decisions. For instance, different methods of communication should be used to different customers, offering different products and value (Buttle & Maklan, 2009).

### **Collaborative CRM**

According to Kracklauer (2005), Collaborative CRM is concerned with collaboration and information shared between different departments and stakeholders. Thus, it is an all-inclusive tool for resource integration, involving manufacturers, retailers and consumers, and it focuses on facilitating cross-functional collaboration, while ensuring that relevant customer information is shared efficiently, achieving a win-win outcome. All departments can make profits from Collaborative CRM, including improving the efficiency of brand management, reducing production costs, streamlining logistics processes, improving consumer value, and increasing revenue.

### **2.4. Models of CRM**

Gronroos (1994) argued that the Marketing Mix should shift to Relationship Marketing, 4P theory of the Marketing Mix is no longer adaptable to the reality of modern business. The author believes that building relationships is the foundation of marketing.

Some of the major CRM models are presented below.

#### **IDIC Model**

Peppers and Rogers (1995) proposed the IDIC model, which stands for Identify the customers, Differentiate them, Interact with them, and Customize for them. The important objective of this model is to make the customer trusts on the company, because it is crucial in order that the customer can build a good relationship with the company. In this model, the company should firstly identify its customers, because only by identifying and marking individual customers, the company can establish a relationship with them. Then comes to differentiation of customers, to understand the differences between customers, so that resources can be focused on those customers who can bring more profit to the company, and at the same time can provide different products or services to different customers. The next step is to improve the efficiency of interaction with customers. The company's interaction with customers must be effective and continuous, and the cost of interaction must be manageable. The last is customization, where the company should customize its products to meet the customers' needs, constantly adjusting and continuously improving them. Identification and differentiation are insights, while interaction and customization are actions.

### **The CRM value chain**

The CRM value chain was proposed by Buttle (2005) and consists of five phases and four supporting conditions, which allows to improve the customer profitability. The five phases include customer portfolio analysis, customer intimacy, network development, value proposition development and managing the customer lifecycle. The supporting conditions are leadership and culture, data and information technology, people, and processes.

### **The QCi model**

According to Buttle (2008), this model is more accurately expressed as a customer management model (as the word “relationship” is omitted). The model focus on customer acquisition and retention, and it presents the needed activities to reach it.

### **Payne's five-process model**

This model was proposed by Payne (2005). It includes five key cross-functional CRM processes: the strategy development, the value creation, the multichannel integration, the performance assessment, and the information management.

### **The Gartner competency model**

This model was developed by the consulting firm Gartner Inc. and it includes the eight competencies that a company needs to have in order to successfully implement CRM. These competencies are: CRM vision, CRM strategy, valued customer experience, organizational collaboration, CRM processes, CRM information, CRM technology, and CRM metrics.

In addition to the above models, many scholars have proposed other approaches and steps for CRM.

Lauterborn (1990) proposed the 4C model, which includes customer needs and wants, cost to the customer, convenience, and communication. Compared with the traditional 4P marketing mix model, 4C pays more attention to customers, tries to take the customer in center, viewing things from the customer's perspective. In other words, it emphasizes that companies should pay more attention to the needs and interests of consumers to achieve a win-win situation for companies and customers.

Swift (2001) believes that CRM strategy contains four elements: interaction, connection, knowing, and relevance. Interaction is about to constitute transactions and interactions between customers and companies; connection is the management of contact points between customers and companies; knowing is the ability to capture customer information and data, gain knowledge from the data and learn it continuously; and, finally, relevance is the application of insights to establish connections with customers, create good interaction and communication, and build long-lasting value relationships.

According to Sharp (2002), CRM strategy is divided into the steps of Interacting, Analyzing, Learning, and Planning, which are explained on Table 2.2.

Table 2.2 Four Steps of CRM Strategy

Interacting	Referring to the series of transactions and interactions that make up a dialog between a customer and an organization (e.g., sales processes)
Analyzing	Applying insightful marketing practices to create relevant interactions that build valued relationships
Learning	Connecting interaction points between a consumer and an organization to obtain knowledge of the customer
Planning	Developing marketing plans and strategies to meet customer requirements

Source: Sharp (2002)

Payne et al. (2005) presented the prototype of The Six Markets Model, which was later improved and enhanced with the development of relationship marketing. The six markets are: Internal Markets, Referral Markets, Influence Markets, Recruitment Markets, Supplier & Alliance Markets, and Customer Markets. The Customer Markets is placed at the center of the model. The purpose of relationship marketing is to create customer value, satisfaction and loyalty, thus increasing the long-term profitability of the company. Although the customer has always existed as the main object of marketing activities, in the Six Markets Model, more emphasis is placed on the need for the company to build long-term customer relationships rather than on marketing activities as the primary focus.

Christopher et al. (20) introduced the concept of Relationship Management Chain. This chain is a dynamic process with four stages, which are: Defining the value proposition, Identifying appropriate customer value segments, Designing value delivery systems, and Managing and maintaining delivered satisfaction. As the market and customer needs are constantly changing, the relationship strategy needs to be redesigned.

Pearce (2021) argued that CRM should follow 7 steps: Understand brand positioning, Set customer goals, Assess the company's resources and capabilities, Align with goals, Focus on customer engagement, Clearly delineate each phase, and Measure the effectiveness of the project.

On the whole, different models provide different perspectives and frameworks for managing customer relationships. As such, companies and organizations need to choose the most appropriate model according to their needs and goals, and sometimes they need to use a combination of different models.

## **2.5. Customer Loyalty**

Frederick and Teal (1996) suggest the importance of customer loyalty and the relationship with corporate profits. Successful companies tend to have better customer loyalty than their competitors, and customer loyalty leads to higher value for the company and creates higher profits. Customer loyalty and value creation are inseparable and it affects all aspects of the business system.

Kincaid (2003) argues that loyalty is not rational, it is an emotion that comes from the positive sense of experience and value that the customer receives, and this emotion makes the customer purchase the product, even if such a purchase is not the most logical or best choice.

A customer's loyalty is the sum of satisfaction as a result of all contacts between this customer and the brand. Customers who are loyal pay less attention to other competing brands, and are less price sensitive, have a better evaluation of the brand they are loyal to, and are more likely to recommend the brand to their friends (Kotler & Keller, 2004).

Johnson et al. (2008) point out that loyalty leads to customer satisfaction, so if a company wants to increase customer loyalty, it needs to build stronger relationships with customers and provide each customer with what he or she wants.

Kimiloğlu and Zaralı (2009) argued that managing customer relationships well and increasing customer loyalty can bring financial benefits to the company. CRM is a win-win strategy that can increase customer satisfaction and loyalty, it can also help to improve the company's business processes, increase business efficiency and improve the company's technological capabilities.

According to Peppers and Rogers (2016), loyalty is defined in two dimensions, an attitudinal dimension, which is the mindset of the customer, and the other is behavioral dimension, which is expressed as the actual behavior of the customer. These two dimensions can be used separately and individually, but companies must consider both dimensions if they want to increase customer loyalty.

Pearce (2021) states that customer loyalty is an open and positive attitude towards a brand and its products, and the heart of customer loyalty is customer satisfaction, the feeling of satisfaction gained from contact with the brand, a brand experience that meets or exceeds their expectations. The result is complete trust in the brand by the customer, who may even become a promoter and advocate of the brand and achieve loyalty to the brand. Loyalty is not only a behavioral state, but also an attitude, which is driven by psychological loyalty to form behavioral loyalty.

## **2.6. Consumer Behavior**

According to Payne et al. (1991), many factors influence consumption decisions and consumer behavior, including the range of alternatives product, the consumer's information environment, the characteristics of the individual, and the characteristics of the social context. In addition, differences in prior knowledge and perceptions can influence the consumption decision process of many consumers.

Khan (2006) defines consumer behaviour as mental decisions and physical actions throughout the consumption process, including the acquisition, evaluation, and use of products and services, which suggests that consumer behaviour is not only the purchase of goods/services, it begins before the actual purchase.

Peter and Olson (2009) argued that consumer behaviour is not static but dynamic, because consumers' thinking, emotions and actions are constantly changing. Consumer behaviour is very important to a company's marketing strategy and plan, because a company must make a profit by selling its products through consumers' buying behaviour.

Court et al. (2009) explain how consumers make consumption decisions. According to them, that the decision-making process is cyclical, and after-sales service is the critical stage after the consumer completes the purchase, which determines the consumer's loyalty to the brand and becomes the reason why consumers are likely to buy their products again. ( )

Sabine (2012) said that the study of consumer behavior includes the selection, acquisition, preservation, use, and disposal of products, services, experiences, etc. by consumers.

Solomon (2013) explains consumer behavior as the set of activities and behaviors by which people select, purchase, use and dispose of products or services as a way to satisfy their needs and desires.

Cundari (2015) argued that with the digital era coming and evolving, digitalization has become an important part of the new consumer behavior, digital technology influences customers to make purchase decisions, and therefore, the new consumer behavior is leading changes in the business operations approach.

The consumer buying process consists of identifying a need, finding options to satisfy that need, evaluating the options and finding the best one, and reaching a final consumption decision, which includes: when, where, the product or service, the quantity, and the payment method (Lemon & Verhoef, 2016).

In conclusion, consumer behavior is a multi-dimensional concept that can be interpreted from different perspectives. According to different researchers, consumer behavior is a decision-making and action process influenced by multiple factors, which is dynamic and in a continuous state of change. Marketers need to study and analyze consumer behavior in depth,

to understand what brands, products and services mean to consumers. After-sales service is critical to consumer loyalty and willingness to repurchase. In addition, with the continuous development of technology, consumer behavior has been influenced by digital technology. Consumer behavior is an area that concerns individuals and society, and it is important for companies' marketing strategies and plans.

### 3. Methodology

The subject of this thesis is Cosmetic Company Z. This company has problems in the current operation of the offline store, including unstable customer traffic, low amount per customer transaction and low frequency of repurchase. The goal of this project is to find out the causes of these problems and provide practicable and effective solutions to solve them. The following research methodology is adopted in this thesis: literature review, case study method, interviews, and analysis of business data.

A literature review was conducted about customer relationship management, understand the objectives, roots, types, models and other concepts of customer relationship management, and understand the customer loyalty and consumption behavior.

This project uses the case study method taking Cosmetics Company Z as a research case. As such, it is analyzed its external conditions and internal operation status, in order to find out the existing problems in the company in terms of customer relationship management. After the related problems were analyzed, solutions and improvement suggestions will be put forward.

In-depth interview were conducted with the relevant persons in charge of Cosmetics Company Z, in order to understand the business situation, environment and current problems of the company.

The business data analysis method was also used. The sales data of Cosmetics Company Z was analysed, to understand the company's customer situation and the current situation of customer relationship management, from which the problems were identified.

Finally, it was conducted field research in company Z's offline store, which allowed to collect company Z's consumption data. It was obtained a total of 422 pieces of real data during the one-week actual sales activities in the store, including the customer's information and their consumption characteristics. It was adopted a quantitative method to make decision tree analysis and correlation relationship analysis on these data, in order to obtain an initial consumer profile of Company Z and the association of goods in consumption.

Decision Tree algorithm is a type of machine learning algorithm, which is a centralized inference of segmentation rules from unordered and unruly data samples, it is a supervised learning method for classification and regression. By decomposing the feature values of the data samples layer by layer, a tree structure is finally formed, and each node represents a feature, and classification is performed through the division of nodes.

Decision Tree have the following advantages: easy to understand and explain, the results of the analysis is represented by a visual graphic, which can intuitively see how the algorithm works and understand the meaning of the result. It can process the complex non-linear

relationship between multiple variables, solve the difficult problems that cannot be solved by the linear model. The size of the decision tree is independent of the size of the database, the amount of data does not affect the quality of the results, and the sample is highly representative.

## **4. Customer Relationship Management Plan**

### **4.1. Executive Summary**

Company Z is a Chinese cosmetics company born in Kunming, Yunnan Province. The goal of this project is to develop a CRM plan to help Company Z solve its current CRM problems, help Company Z build healthy customer relationships, increase customer traffic and amount per customer transaction, increasing turnover and generating more financial returns for Company Z, and, ultimately, accelerating the growth of Company Z.

With the implementation of this plan, it is intended that Company Z reaches the following objectives: 20% sales growth in 2024 compared to 2023. 50% increase in new APP registrations. Increased customer loyalty and 20% increase in customer repurchase rate.

In order to achieve this goal, this plan provides a detailed analysis of the external environment and internal situation of Company Z. It describes the cosmetic market in China, Company Z's competitors and the market trend of cosmetic, as well as using the tools of Porter's Five Forces and SWOT to analyze Company Z's strengths, weaknesses, and threats.

In the CRM plan, it is analyzed the customer relationship of Company Z. The decision Tree method is used to obtain the initial customer profile of Company Z. It classifies the customers into 3 types: Type A, Type B and Type C. Then, it is proposed the new CRM model of Company Z based on the IDIC model, which set out the activities of the CRM plan, their budget and schedule, including 15 actions with a total budget of RMB 4.2 million.

Finally, it is presented a list with five assurances, which are needed in order to successfully implement the plan, and how the results of the plan will be assessed.

### **4.2. Cosmetic Market Analysis**

#### **4.2.1. The Chinese Cosmetic Market**

##### **4.2.1.1. History of the cosmetics market in China**

From the early 1990s to 2000, cosmetic goods in China were basically sold on the shelves of supermarkets, and most consumers also chose to buy cosmetics at supermarkets, including foreign brands. The basic skin care products are rapidly developing, but the growth of the beauty and make-up category is very limited, the international brands have begun to enter in the Chinese market, and gradually squeeze the living space of national brands.

After 2000, China's cosmetic market rose quickly and it starts a period of rapid development, customers gradually had an independent demand for beauty. At the same time, the degree of specialization of the market is also increasing, cosmetic stores with stronger specialization began to appear, entering the era of Cosmetic Shop. These cosmetic stores

were basically self-employed, with the owners buying from the wholesale market, getting products from various brands, and then retailing them in their own stores. At this time, the categories of products sold by Cosmetic Shops mainly depended on the richness of the products in the wholesale market, and the shopkeepers would not sell only one brand of products. Such cosmetic stores blossomed in the Chinese market, and some even opened many chain stores, expanding the store's influence. At that time there was no single-brand cosmetic store, the traditional cosmetic stores are more like a kind of beauty department store, its sales situation is similar to Sephora. With the continuous development of the cosmetics market, more and more cosmetic brands began to build their own independent sales channels, including directly managed stores, as well as cosmetics counters in large department stores or single-brand stores.

Starting from 2016, the e-commerce channel has developed rapidly and played a driving role in the cosmetics industry. Today, the e-commerce channel has become the main sales channel in the cosmetics industry, and the development of social platforms and live streaming platforms has provided new development opportunities for more and more brands. With the development of digitization and information technology, the unlimited online capacity and amazing information processing ability provide unprecedented options space for consumers and brands. Although the online channel is developing rapidly, the beauty and skin care industry has its own specificity and limitations, that is, customers must have a real sense of experience and trial of the product, in order to choose the right product for themselves and make the right consumption decision. Therefore, the cosmetics industry can not be separated from the combination of online and offline, online channels can not completely replace the offline stores and counters, the organic combination of online and offline and synergistic development is the best choice for future cosmetic brands.

China's cosmetics market has grown rapidly in recent years, and according to public data from iResearch Inc, the size of China's beauty and skincare industry reached about 500 billion CNY in 2020, including skin care products, make-up, hair care, and toiletries, surpassing the United States to become the world's largest beauty and skincare market. Facial makeup is estimated at 30 billion CNY, while basic skincare and personal care categories have reached a staggering 260 billion CNY in sales, expected to grow at an estimated rate of 10% over the next five years. Currently there are over 5,600 qualified and licensed cosmetic manufacturers in China, and many new national brands have been born, with most of the current Chinese beauty brands falling between the affordable to mid-range beauty market.

#### 4.2.1.2. The beauty category

The major category of beauty can be divided into two sub-categories: base make-up and color make-up. With the diversification and continuous development of sales channels, China's beauty consumer group is also expanding, and the size of the beauty market is increasing year by year. By 2020, the size of beauty market reached 68.9 billion CNY.

With the growth of Generation Z consumers, consumption upgrading brought about by the increase in national income, the awakening of Men's beauty customers, and the development of beauty generalization, specialization, and high-end, the entire beauty market is set to see sustained growth. Due to negative population growth, the market increase is expected to slow down year by year after 2022, but remains in a continuous upward trend.

Figure 4.1 Size and Growth Rate of China's Beauty Market, 2016-2025



Source: [www.iresearch.com.cn](http://www.iresearch.com.cn)

#### 4.2.1.3. The skin care category

The skin care category is divided into two subcategories: cleansing products and skin care products. In China's facial skin care market, international brands have occupied a strong position for many years, and most brands have mature and systematic product deployments in high and low price markets, such as beauty giant L'Oreal, which has corresponding brands and products for different consumer markets.

In contrast, China's local brands are at a disadvantage, with long-established brands unable to launch new products that are immediately recognized by the market, and new brands

struggling to be accepted by consumers due to a lack of brand history. Overall, Chinese brands of facial skincare products are still in the low-end market, and could try to enter the high-end market in the future.

Due to the mature consumer awareness of the concept of skincare, the continued skincare of elderly consumers, the gradual increase in men's customers, and the emergence of more new consumers with consumption upgrading, the demand side of facial skincare maintains a certain growth rate, and Chinese brands still have considerable development potential in the future, with China's facial skincare market reaching 281.5 billion CNY in 2020, and is expected to reach 465.5 billion CNY in five years.

Figure 4.2 Size and Growth Rate of the Facial Skin Care Industry in China, 2018-2025



Source: [www.iresearch.com.cn](http://www.iresearch.com.cn)

#### 4.2.1.4. Development of OEMs

The development of OEM companies has also contributed to the development of China's beauty and skincare industry. At the beginning of the 21st century, overseas cosmetic brands began to enter in the Chinese market, opening up the consumer market, and pushing the growth of OEM and ODM.

By 2020, there were more than 5,000 OEM enterprises in China, the beauty and personal care industry is booming, with many professionals, and lots of new national brands have been born. In 2021, the government issued regulations related to cosmetic products, which strictly stipulate the requirements of cosmetic raw materials and quality supervision, improve the industry's standards and threshold of entry, which will guarantee the healthy development of the cosmetic industry. The quality of China's cosmetic market in the future will continue to improve, and its influence will continue to expand.

## 4.2.2. Competitor Analysis

### 4.2.2.1. Competitors in the domestic brand market

Company Z is in the cosmetic industry in China, which is a company specializing in skincare products and make-up products. As a new Chinese brand, Company Z has not been established for a long time. From the perspective of brand positioning and future development, Company Z's target market is China's domestic cosmetic market, and in the domestic market at present, most of the national brands are Company Z's competitors. In the skin care industry which is gradually becoming more and more high-end, domestic brands are clearly differentiated to form a competitive pattern.

Tables 4.1 and 4.2 show the market share of Top 10 domestic Chinese skincare and make-up brands, respectively.

Table 4.1 Market share of top 10 domestic Chinese skincare brands

No.	BRAND	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1	Pechoin	1.8%	2.6%	3.4%	4.0%	4.4%	4.5%	4.5%	4.1%	3.8%	3.5%
2	CHANDO	—	2.3%	2.5%	2.8%	3.3%	3.4%	3.4%	3.1%	3.0%	2.7%
3	PROYA	1.3%	1.4%	1.3%	1.2%	1.1%	1.2%	1.3%	1.4%	1.7%	2.5%
4	WINONA	0.1%	0.1%	0.2%	0.4%	0.6%	0.8%	1.1%	1.4%	1.7%	2.4%
5	INOHERB	1.8%	1.7%	1.6%	1.4%	1.1%	0.9%	0.7%	0.6%	0.7%	1.0%
6	KANS	—	—	1.1%	1.3%	1.2%	1.1%	0.8%	0.9%	1.1%	0.9%
7	MARUBI	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.0%	1.0%	0.9%	0.8%
8	Voolga	—	—	—	—	—	—	0.7%	0.8%	0.8%	0.8%
9	HERBORIST	2.0%	2.2%	2.1%	2.0%	1.9%	1.7%	1.6%	1.0%	0.9%	0.8%
10	WETCODE	1.0%	1.1%	1.2%	1.1%	1.1%	1.0%	0.9%	0.9%	0.7%	0.7%
Total market share of domestic brands		9.0%	12.5%	14.5%	15.3%	15.8%	15.7%	16.0%	15.2%	15.3%	16.1%

Source: Euromonitor

Table 4.2 Market share of top 10 domestic Chinese make-up brands

No.	BRAND	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1	Florasis	—	—	—	—	0.3%	2.0%	2.9%	5.1%	6.8%	6.2%
2	Perfect Diary	—	—	—	—	0.3%	1.6%	5.1%	6.7%	6.4%	3.3%
3	Color Key	—	—	—	—	—	0.4%	1.1%	1.4%	2.5%	2.3%
4	MAOGEPING	0.7%	0.7%	0.7%	0.6%	0.6%	0.5%	0.7%	0.9%	1.4%	1.8%
5	Judydoll	—	—	—	—	—	0.6%	0.7%	1.2%	1.5%	1.8%
6	Joocyee	—	—	—	—	—	—	—	0.2%	0.8%	1.3%
7	TIMAGE	—	—	—	—	—	—	—	0.4%	0.7%	1.3%
8	littleondine	—	—	—	—	—	—	0.3%	1.6%	1.2%	1.1%
9	ZEESEA	—	—	—	—	0.9%	1.1%	1.7%	1.7%	1.0%	1.0%
10	CHIOTURE	0.1%	0.2%	0.2%	0.4%	0.8%	1.3%	1.9%	1.9%	1.1%	1.0%
Total market share of domestic brands		2.7%	2.9%	3.1%	3.4%	5.4%	9.7%	16.0%	22.1%	24.1%	21.8%

Source: Euromonitor

In summary, whether it is a skincare brand or make-up brand, the market share of each brand is on the rise, especially the market share of the brands positioned at the high end has increased significantly. From the data, it can be seen that from 2013 to 2022, the overall market share of skincare products has increased by 7.1%, and make-up has increased by 19.1%, which is a very fast rate of growth. Among skincare brands, the market performance of skincare brands with strong product innovation is better. And among make-up brands, both the low-end and middle-end brands that are positioned for the public and the higher-positioned brands are showing an upward trend.

At present, Chinese brands are competing directly with international brands, and the market share still has a lot of potential for improvement. In China's cosmetics market, Chinese local brands have the incomparable advantages compared to international brands. Compared to international brands, domestic brands are more capable of quickly adapting to changes in the Chinese market and adjusting their strategies in time. Diversified sales channels and marketing modes have accelerated the reach and education of national brands to customers, and online sales channels include traditional e-commerce companies, as well as abundant social media platforms and live selling platforms, which can exerting their social and information transfer attributes, as well as completing the sale of products and gaining profits.

Company Z, as a young Chinese start-up brand, has a solid R&D foundation, and the product quality has been recognized by customers. Although it is not as well-known as some domestic brands with a longer history, a solid product foundation can lead to sustainable

development. In addition, the brand concept caters to the needs of the future market, which makes it highly competitive and has a strong potential for development.

#### **4.2.2.2. Competitors in the global clean beauty market**

Company Z's main concept of Clean Beauty is also a major trend in the beauty market. Clean Beauty consists of 4 elements: green raw material ingredients, real and harmless skincare benefits, streamlined and recyclable packaging materials, and sustainable in line with eco-friendly trends. In this competitive dimension, many brands have started to join the wave of Clean Beauty by building new brands, developing new products or directly acquiring other brands to create beauty products with the concepts of eco-friendly, natural and clean.

In 2019, Japanese beauty group Shiseido announced the acquisition of U.S. skincare brand Drunk Elephant for \$845 million, boosting the group's market share in the Americas. Drunk Elephant, which launched in 2013, has a high-end positioning in line with Shiseido's merger and acquisition needs, and Drunk Elephant's clean skincare concept has been well received by young customers in the United States, its full range of products are free of harmful substances.

Unilever Prestige, the high-end products division of Unilever, acquired British natural skincare brand REN in 2014. REN's brand name is taken from the Swedish word for clean, as founder Antony's wife was allergic to skincare products during her pregnancy, which led him to start formulating his own eco-friendly products that are completely free of preservatives, colors and mineral oils. Since then, REN has become a fast-growing brand, and has become the favorite brand of many European and American customers. Besides REN, Unilever acquired Tatcha for \$500 million in 2019, a high-end skincare brand with a natural positioning. The brand was founded in 2009, with a natural positioning, representing the Japanese beauty trend, and the founders were inspired by the traditional beauty way in Japan, developing skincare products based on natural ingredients, such as green tea, rice, and seaweed, which are perfect for the natural and healthy consumption trend in the beauty and skincare market.

Korean beauty giant Amorepacific, founded in 1945, promotes the beauty of purity with its gentle skincare brand SOON+, a skincare brand developed for sensitive skin with lactobacillus as the main ingredient, and Amorepacific has also launched a new brand, Enough Project, which focuses on minimalist and naturalistic skincare, a vegan and eco-friendly brand.

Jones Road Beauty, a new brand created by the founders of Bobbi Brown, is a brand that looks at beauty from a different perspective, they emphasize on their official website that their products are formulated to eliminate over 2,700 potentially harmful ingredients and never contain any harmful chemicals. Once launched, Jones Road Beauty's products were an instant hit among clean and beauty enthusiasts.

REVLON Professional has launched its own clean line of products, and the new products have been certified with the EWG's green safety rating, officially opening up the Clean Beauty market. Beauty giant L'Oreal also made a commitment to Clean Beauty, the company announced that by 2023, 95% of the ingredients in their products will come from renewable plant resources, to create clean and environmentally friendly sustainable regenerative beauty products. Meanwhile, Estee Lauder has made a similar commitment, announcing that the company is increasing the transparency of its product ingredients, create products with safe ingredients and at the same time taking into account the best skincare results.

In general, both local Chinese brands and international cosmetic brands recognize the existence of Clean Beauty as a future trend in the cosmetic market. Although various brands are trying to turn the ship around to Clean Beauty, the process is very slow, and the entire cosmetic market has not yet seen a representative brand, the competitive market is still in the immature exploration stage, especially for the big mature international brands, trying a new direction means paying more costs and taking more time.

Company Z has a unique advantage in this field. The brand was founded from the beginning of the Clean Beauty concept, has deep experience in product development, exclusive factory production, do not rely on the OEM model, easier to grasp the quality of the product from the source. The brand was born in Yunnan Province, known as the Kingdom of Plants, has the advantage of unique plant resources, provides a guarantee for the raw materials of the product, and has an irreplaceable advantage in the competitive market of Clean Beauty.

#### **4.2.3. Porter's Five Forces Analysis**

With the high quality development of China's economy, and upgrading of national consumption demand, the scale of China's cosmetic market has been growing steadily, and it is still in the growth period. The Porter's Five Forces model is used to analyze the industry business environment of Company Z.

##### **4.2.3.1. Rivalry among existing competitors**

From the perspective of brand positioning and store location environment, company Z is a middle and high-end cosmetic companies, but the price positioning of company Z is relatively low for the public customers, so in terms of price, domestic and foreign low-end positioning of cosmetic companies are potential competitors for company Z. However, as a new domestic brand, company Z's brand focuses on traditional Chinese skincare concepts, has simple and atmospheric packaging with Chinese characteristic style, and uses pure plants and natural

skincare ingredients, therefore, its competitors are mainly Chinese traditional skincare and clean beauty brands.

Based on this criteria, Company Z categorizes the traditional skincare and clean beauty competitor brands among Chinese brands into four types: AC, BC, AD and BD, based on four main indicators: high price, low price, natural ingredients, and traditional ingredients. Based on these four indicators, Table 4.3 presents the main competitors of Company Z.

Table 4.3 Main competitors

Competitive Brands	A: Low Price Positioning	B: High Price Positioning
C: Natural Ingredients	Company Z	CHANDO
	Pechoin	UNIFON
	XIEFUCHUN	little dream garden
		HERBORIST
D: Traditional Ingredients	Judydoll	KANS
		Dr.Morita
	VNK	MARUBI
		Comfy

Source: The author

Cosmetics companies in type AC represented by Pechoin and XIEFUCHUN, are the biggest competitors of company Z. They are in the same category, offer similar types of products and product values, and compete with greater intensity. Pechoin was founded in 1931 and promotes balanced and harmonious Eastern skincare. With the development of modern technology, Pechoin upgraded its original botanical series of formulas by combining herbs and technology. But in 2020, Pechoin obtained the medical device production qualification and started to produce medical products, which made Pechoin's original brand positioning changed. XIEFUCHUN is also a brand with a long history, which can be traced back to 1830, and it is the first cosmetic company in China, which mainly produces traditional Chinese beauty products, with the characteristics of ancient and mysterious. Although the brand focus on low price and natural ingredients, XIEFUCHUN is fundamentally different from Company Z. XIEFUCHUN focuses more on ancient Chinese skincare formulas, and although the ingredients are taken from natural materials, there is no scientific evidence to prove that the ingredients meet today's skincare needs. XIEFUCHUN focuses on preserving the ancient classic ingredients and formulas, whereas Company Z continues to research and develop new formulas, which better meet the needs of the consumers.

Companies in type AC are direct competitors of Company Z, and their target customer groups overlap a lot. Comparing companies in type AC with Company Z, has the advantage of a long history, high brand awareness, and a large company scale, but Company Z clearly

has more advantages in product development and design. Pechoin has developed into a large integrated enterprise group, and in terms of company decision-making, the process is long, the approval is strict, and it is not easy for companies to transform, while Company Z, although established in a short period of time, and the size of the company is small, but it can change the product strategy and even the company strategy according to the market demand immediately, which makes the transition more flexible.

Companies in type BC are the second important competitors of Company Z. They offer products with natural ingredients but at a higher price to costumers. Sometimes, costumers choose higher products in the same category because they feel that higher priced products imply higher value, which may be superior to lower priced products in terms of efficacy. In terms of brand positioning, the BC type companies are positioned higher, and their target costumers partially overlap with Company Z, but the overlap is not as high as AC type companies, which reflects that Company Z has the opportunity to expand its own target customer base. when Company Z competes with BC type companies, its advantage lies in guaranteeing the efficacy of its products with lower prices. The competitive intensity between BC type companies and Company Z is not very strong, but its costumer group has the opportunity to turn into costumers of Company Z. Company Z should make continuous efforts in this regard.

AD and BD type companies have a different costumer base than Company Z. These costumers tend to love traditional skin care ingredients, they are less trusting of new skin care methods and product ingredients. They are usually older women who are not willing to accept new things. Therefore, AD and BD type companies do not compete directly with Company Z, and the intensity of competition is lower. The biggest advantage of Company Z is the design and development of the products, in other words, the core value of Company Z lies in the product formulations, the new purely botanical formulas can bring a new way of skincare to costumers, but it requires efforts and time for market to accept. Company Z can make effort in this aspect, but it is not the first step for Company Z to make effort.

Summarizing the above analysis, AC type compainies, represented by Pechoin and XIEFUCHUN, are in direct competition with Company Z and have a high competitive intensity, but Company Z's competitive advantages can easily cope with such a competitive threat. Except for AC type companies, BC, AD, and BD type companies do not have competitive advantages in terms of price or product composition, and the ingredients are also different from Company Z, which does not cause much competitive pressure on Company Z. Therefore, in the current market, there is not much threat from fellow competitors.

#### **4.2.3.2. Bargaining power of customers**

After the epidemic, economic environment is more uncertain, and consumers' attitudes are more conservative and cautious compared to the pre-epidemic period. In China, after the end of the Epidemic blockade, the market is waking up and consumption is gradually recovering. Although people are beginning to control their spending budgets, most consumers still insist on the pursuit of quality of life, and are more willing to choose higher-value products, services, and consumption experiences at the same price point. This redefinition of products and services is also changing their consumption decisions and influencing their choice of products.

For Company Z, the buyers are primarily individual customers. Individual customers have the following characteristics when it comes to cosmetic purchases: they seek products that match their skin type, have a high possibility of repurchasing, and use the brand for a long period of time after they have developed trust in the brand. Customers of beauty and skin care pay more attention to the ingredients and efficacy of the product compared to the price. Therefore, as long as the quality of the product is good and the function meets the market demand, it will be able to attract customers to buy it. Company Z's products, which focus on natural ingredients, have been recognized by the market and have very good reputation and evaluation, coupled with its mid-to-high-end positioning and low-priced strategy, the stickiness of the customers is high, and the possibility of repurchase is also very high.

In addition, customers face higher costs of switching brands. Different skincare products have different efficacies. Thus, to find the most appropriate product for their skin type, customers need to understand and learn the efficacy of each brand's ingredients, and they need to use it for a long period of time in order to see the results of their skincare, if they are the customers who have been purchasing products from Z, they will seldom change to another brand. Therefore, the bargaining power of the customers is not high.

#### **4.2.3.3. Threat of potential entrants**

Compared to other industries, the cosmetics industry is not very difficult to enter, but it is difficult to establish a foothold in the industry. The cosmetics industry is booming, and there are currently more than 5,600 qualified and licensed cosmetic manufacturers in China. The pressure of competition in the market is huge, it is easy to enter the market, but it is not a simple matter to keep the territory. In recent years, China has strengthened its regulation of the cosmetics industry. The government has introduced several laws and regulations in the past few years, to constrain cosmetic companies in the industry, regulate the orderly and

healthy development of the industry, while at the same time raising the threshold for new brands to enter. A number of rules and regulations have stipulated product quality standards, ingredient safety standards, regulated pricing, and clarified the filing procedures and requirements for cosmetics and new raw materials in the cosmetics industry.

In 2022, the government published a regulation on the publicity of cosmetic efficacy, which further raised the entry threshold of the cosmetic industry, requiring cosmetic brands to provide relevant scientific evidence as support when publicizing the efficacy of their products. This not only raises the entry threshold for new brands, but also eliminates the original poor-quality brands and products in the market. After the poor-quality products are eliminated from the market, the high-quality products will have more space to develop. To summarize, although the threshold of the cosmetics industry is relatively low, it is also improving year by year. It is easy for new players to enter the market, but to develop in the long term, they are facing a lot of unknown challenges, so there is little threat from potential entrants.

#### **4.2.3.4. Threat of substitute products or services**

The basic purpose of cosmetics is to keep people's skin healthy, improve skin texture, enhance appearance and delay aging. With the development of science and technology, some alternative products to cosmetics have appeared on the market, such as medical cosmetology, home beauty devices and beauty and health care medicines. Although all of these products occupy a certain position in the field of beauty care, and are also loved and recognized by customers, but they are not enough to completely replace the function of cosmetics in daily skin care.

Cosmetics are divided into skincare products and make-up products. Make-up products, as an instant way to become beautiful, cannot be replaced by any other method at present. Some methods of medical cosmetology claim to be able to achieve instant and long-lasting results of becoming beautiful, but their essence is different from make-up, the change of the body and skin condition is completely different from make-up, and they are not in conflict with each other, customers using medical cosmetology can use make-up products at the same time, to make themselves look more beautiful, so medical cosmetology is not a substitute for make-up products. Home cosmetology devices and beauty care medicines do not create an instant results, so they cannot be compared with make-up products.

Skin care products are a kind of long-term product, which can only be used to see the effect in a long time, mainly used on the surface of the skin. Most of home beauty devices available on the market need to be used together with skin care products, in order to achieve the best effect; therefore, they can not replace skin care products. Medical cosmetology and beauty care medicines can not replace the daily maintenance function of skin care products.

Even though the development of medical cosmetology is still in the early stage, the trust of customers in medical cosmetology is still to be improved. Therefore, in the current market, there are no competitive substitutes for cosmetics, there is huge room for innovation in cosmetics, which will not be limited by substitutes. Thus, the threat of substitutes is not high.

#### **4.2.3.5. The bargaining power of suppliers**

The bargaining power of suppliers depends on many factors, including the level of industry concentration, substitutes for products, and the scarcity of raw materials. Suppliers in the cosmetics industry are mainly raw material suppliers, packaging material suppliers, and sales channels, such as agents and online sales platforms. Cosmetic raw materials mainly include basic materials, surfactants, active ingredients and technical ingredients, where technical ingredients can be researched and developed by the company itself or purchased from technical patents.

Suppliers of cosmetic raw materials has relatively weak bargaining power, as the raw material costs are low and prices are transparent. Company Z has exclusive technological ingredients. Its research and development department maintains the ability to innovate, always update its technology to cater to the market. In terms of packaging materials, Company Z uses green and sustainable materials that are recyclable, with low prices, the materials are natural and readily available, so the bargaining power of suppliers is not high. Company Z has its own production factories, and does not need to rely on OEM factories, which gives it an obvious advantage in terms of production process, product packaging , marketing and promotion. In terms of sales channels, Company Z's offline sales channels are brand directly-managed store, so it also has an advantage in terms of sales channels.

#### **4.2.4. Cosmetic Market Trends**

##### **4.2.4.1. Ingredient/effective skincare trend**

Efficacy skincare products are skincare products that have whitening, anti-aging, wrinkles, blemish, repair and other effects. According to the survey results of iResearch Inc.(2022), in 2022, when customers purchase beauty and skincare products, the two most important decision factors are product efficacy and product ingredient safety.

Since the beginning of the cosmetics market, customers have gradually changed from passive to active, as a consequence of more and more customers are starting having professional skincare knowledge and skincare skills, rather than just staying in the basic efficacy of moisturizing and hydrating stage. Coupled with the development of the Internet,

scientific skin care content is known to customers, the high knowledge groups of customers began to pay attention to product ingredients and professional skin care knowledge.

Customers know more and more what they want, they are more concerned about the quality of the product itself, rather than the appearance and style of the product. They care about whether the efficacy of the product is suitable for their skin type, whether the ingredient is natural and healthy, and no harm to the skin.

#### **4.2.4.2. The trend of technological skin care**

With the advancement of technology, the development of artificial intelligence and digitalization has also impacted the cosmetics industry, while bringing new opportunities and development trends. Skin testing, home beauty devices, AI beauty, 3D printing masks and other high-tech products gradually penetrate into customers' lives, and the era of digitalization of beauty has officially started. The digitization of the cosmetics industry continues to accelerate, led by international beauty giant companies.

Table 4.4 summarizes the new technologies used by global cosmetic brands.

In 2014, L'Oreal launched Makeup Genius, a virtual makeup mirror that supports users to achieve virtual makeup trial on smartphones, using augmented reality technology to be able to see the effect of products used on their faces before purchasing cosmetics products. In 2018, L'Oreal acquired ModiFace, a Canadian beauty digital technology company, using AI technology to analyze the skin condition for customers, provide customers with personalized guidance on product use, and also accurately determine the user's facial features through data analysis and machine learning, so as to provide the customer with color matching and offer the best advice on make-up product purchases.

Estée Lauder launched a digital virtual make-up experience service in 2017, to provide rapid and realistic AR makeup trials for customers, then launched the iMatch Virtual Shade Expert app, which is paired with Estée Lauder's star products, to allow customers to match themselves and purchase products accurately.

Japanese skincare giant Shiseido acquired AI technology company Giaran in 2017. They developed digital features such as online makeup, virtual makeup trials, facial tracking, color analysis, and matching recommendations. These features bring personalized and customized beauty solutions to its customers, as well as quickly allow them to experience the newest products.

Neutrogena, a brand of Johnson & Johnson, released a 3D-printed face mask in 2019, which is based on 3D-printing technology and is able to personalize the mask for customers, it can create a mask product with the best fit according to the contours of their face, and even

provide different mask ingredient formulas to provide customers with a precise skincare experience.

Procter & Gamble launched OPTE AI in 2019, a mobile and portable beauty device, which is capable to use blue light to scan the face for imperfections, support the precise location of pigmentation and contouring based on different customers' faces, and enable customized beauty treatments.

Table 4.4 New Technologies Used by Global Cosmetic Brands

CORPORATION	PROJECT	TECHNOLOGIES	LAUNCH TIME
L'Oreal	Virtual Makeup Mirror: Makeup Genius	AR	2014
	ModiFace Facial Recognition	AI	2018
	Personalized Cosmetic Device Perso	AI	2020
	YSL Lipstick Printer	3D Printing	2020
Estee Lauder	AR simulation "Makeup Magic Mirror" function	AR	2017
	iMatch virtual foundation color matching app	VR	2019
	AR Beauty Training Live Classes	AR	2020
	iMatch Virtual Skin Analysis	AI	2020
	Estee Lauder Expert Skin Diagnostic	AI	2020
Shiseido	Invisible VR program "caico"	VR	2019
Johnson & Johnson	3D Printed Mask Mask iD	3D Printing	2019
Amore Pacific	IOPE 2nd Generation 3D Mask Printer	3D Printing	2019
P&G	OPTE AI Skin Care Device	AI	2019
Kao	RNA monitoring technology	AI	2020
Kose	Bellus3D Mask Printer	3D Printing	2018
	Nail Printer	3D Printing	2020

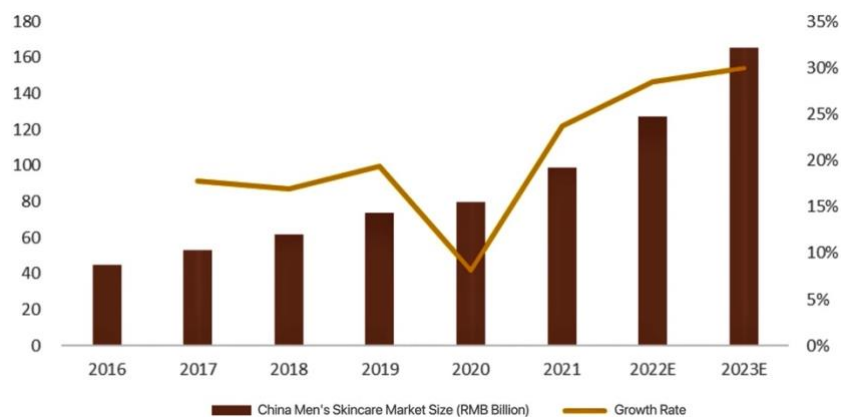
Source: Official websites of various beauty companies

With the development of the concept of consumption, and upgrading of science and technology, the digital economy will become the new trend of future consumption. The concept of technological skincare will also become customer's daily skincare concept. L'Oreal, Procter & Gamble, and other international beauty companies have already added technological skincare to the level of corporate strategy, Chinese beauty brands are also increasing the investment in scientific and technological R&D. The era of technological skincare has already arrived, and it is also an inevitable trend of customers' demand for skincare.

#### 4.2.4.3. Trends in men's skincare

With the popularization of skincare knowledge, driven by the rise of online sales channels, the blue ocean of the men's skincare market has been formed, men's beauty and skincare market is rapidly expanding, with many international and domestic brands having launched men's skincare lines. According to the data provided by iiMedia Research (2021), in 2021, China's men's skincare market reached 9.9 billion CNY. Even under the influence of the epidemic, the market size is still growing, and is expected to reach 16.53 billion CNY in 2023, with an average annual growth rate of 29.22% from 2021-2023, which shows that men's customer groups have huge potential. According to Euromonitor (2021) historical data, the retail sales of China's men's cosmetic market grew by an average of 13.5% per year from 2016-2019, far exceeding the global average.

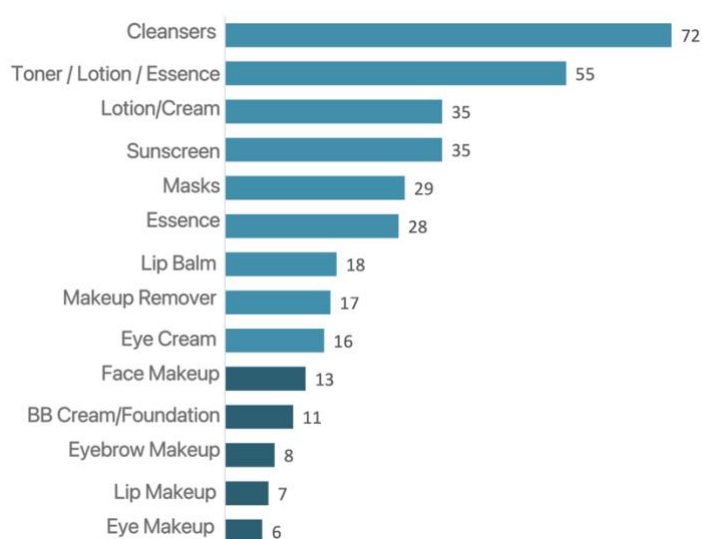
Figure 4.3 China Men's Skincare Market Size



Source: <https://www.iimedia.cn>

Among men's cosmetic products, cleansing products have become the main consumption category, lotions and creams also occupy a major position, while the demand for shampoo and conditioner, bathing and oral care is also growing. Unlike women, who prefer to buy sets and demand for gifts, men are more concerned with their own use of products, often purchasing products for their own needs, favoring products designed for men, and focusing on functionality rather than packaging design. According to Ipsos (2021) survey data in 2021, compared to men's skin care products, men's make-up category performance is weaker, but there is still a lot of room for development.

Figure 4.4 Mens that used skin care/ makeup products, in 2021 (%)



Source: Ipsos (2021)

Overall, the enhancement of men's skin care awareness and consumption upgrading has brought new opportunities and potential for growth in the men's cosmetics market, which is also a key factor driving the growth of the men's cosmetics market. Mid- to high-end men's skin care brands are on the rise, and various brands are perfecting their men's product line, which currently has a huge market space. In addition to cleansing products, men's customers have a new demand for subdivided skin care products, men's masks, men's sunscreen, men's eye cream and other categories of the market is yet to be developed.

### 4.3. Internal Situational Analysis

#### 4.3.1. Characterization of the company

Cosmetics Company Z (Company Z) was founded in 2020, and is located in Kunming, Yunnan Province, China. Company Z has created an emerging Chinese cosmetic brand, engaged in the research and development, production, and sales of cosmetics products.

Mr. Zhao, the founder and CEO of company Z, is a senior cosmetic R&D engineer who has been focusing on cosmetic R&D for 15 years. Company Z's brand concept is to create pure and natural Clean Beauty products with safe and green ingredients, which is in line with the current trends of customers' attention to their own health and the concept of nature. Safe and transparent cosmetics with reliable ingredients have always been the basic demand of customers, and company Z has utilized its own strengths to launch a series of high-quality products in line with this popular trend.

In the field of skin care products, company Z holds exclusive professional whitening ingredients. At the same time, it has its own independent cosmetic R&D and production system, which has been recognized by consumers since its initial establishment, and has a good reputation and credibility in both online C-end sales channels and B-end sales channels. Relying on its own strong factory supply chain, company Z has R&D and production advantages, and introduces international advanced equipment to realize automated production. Supported by a strong production base, company Z has developed different series of products, one after another, targeting different groups of people and market demands.

Company Z's concepts are in line with the current emphasis on environmental protection, and also contribute to the promotion of global sustainable development. The concept of green, healthy and natural is applied to every series of products. All ingredients that can affect health or cause skin irritation will not be used, and there are truly no preservatives, mineral oils, artificial flavors or other ingredients added to the products, no animal testing or animal ingredients, using vegetable oils that are produced in a sustainable way, as well as the use of recyclable and biodegradable packaging materials.

Despite company Z's rapid development, there are still limitations and bottlenecks. In terms of brand awareness, company Z was founded less than 3 years, even though the performance of each sales channel is excellent, the product awareness is still not high, only local customers have high awareness of the brand, it is difficult for out-of-town customers to get in touch with the brand. In terms of product reputation, there are still many customers indicating that they do not have enough trust in domestic brands, and they may tend to choose well-known and long-established international brands, which is a challenge for Company Z's future development.

#### **4.3.2. Mission, Vision and Values**

Mission - To bring skincare back to nature and help all customers find their original beauty.

Vision - To promote the beauty of natural, inherit Chinese traditional culture, and create a world-famous naturalistic skincare brand.

Values - Keep natural, Keep excellence, Keep learning, Keep green

Keep natural: follow the law of nature, use pure natural plant ingredients in all products, do not use animals for experiments, to ensure that the products are natural and high quality.

Keep excellence: ensure the reliability of the raw materials and the true efficacy, keep innovation, strict requirements of each member of the enterprise. Always striving for higher standards and better quality.

Keep learning: lifelong learning, continuous progress, based on natural product ingredients, while relying on scientific and technological methods, combined with the latest knowledge to continuously improve the capabilities of individuals and enterprises.

Keep green: persist in protecting the environment, keep the principle of sustainable development, follow the principle of environmental protection in product R&D, production and sales, and dedicate to the development of environmental protection.

#### **4.3.3. Positioning and Targeting**

Company Z has been pursuing the brand positioning of natural ingredients and safe skin care. Sustainable development is a global development trend, people's environmental awareness has increased to accelerate the development of green products market, coupled with the impact of the epidemic, customers pay more and more attention to the awareness of health and safety, natural ingredients, environmentally friendly packaging products become the primary choice of customers. Therefore, company Z seizes this opportunity and insists on clean production, 100% natural plant ingredients in all product development, striving to bring customers a safe and pure skincare experience.

In terms of brand value and price positioning, company Z pursues high brand value matched with low price, for women over 35 years old as the first target market and women aged 18-34 as the second target market. For mature women over 35 years old, they have stable families, successful careers, strong financial capabilities, and stable consumption ability, they are generally willing to pursue high-quality products, and price is not the primary consideration, the product concept of company Z is exactly in line with their needs. Women between the ages of 18-34, with a poorer economic base, will firstly consider the price factor when purchasing products. Company Z's products have a price advantage in the mid- to high-end market, which is a strong attraction for this type of young people. Young customers are also the main force of future consumption and have the potential to become loyal customers.

In addition, the development potential of male customers is also huge. Company Z has launched a series of products for male, which can well attract male customers and play a key role in the future development of Company Z, as well as further clarifying its brand positioning.

#### **4.3.4. Products**

Currently, company Z has created a rich product line that fits the cosmetic market, with 5 series of products, containing 22 SKUs. Products include personal care products, mask series, facial skin care products and make-up products.

Company Z focuses on men's and women's skincare products, shampoo and bath products, and make-up products, of which the facial mask and whitening series are the company's main products, which are also the highest-selling products. Before the establishment of Company Z, the founder, Mr. Zhao, worked as the manager of the product research and development department of another well-known skincare brand, and he was responsible for the facial mask series, which received positive feedback from the market, gaining high visibility among the cosmetics customer group. As regards to the facial masks developed by Mr. Zhao for Company Z, the core ingredients are taken from natural Chinese medicines, have excellent skincare efficacy, which is not only scientifically proven to be effective, but also recognized by the market. The whitening series of Company Z is also the brand's star product. As Yunnan Province is located on a plateau with strong ultraviolet rays, the skin of local residents is affected by sun exposure, and their skin color is generally darker, so the whitening effect is the core demand of local customers. The whitening series products of Company Z has catered to this demand, and has been loved by countless female customers.

Shampoo and bath products are very popular among family customers. Unlike whitening products, which are mainly targeted at female customers, this series of products are popular among both female and male customers, and are even more popular among male customers. The men's series has also been gradually recognized by the market. As more and more men customers begin to pay attention to their own skin care needs, the awareness of men's beauty has awakened, the prospect of men's series of products is bright, and the development of men's series of products will help to enhance the company Z's competitiveness in the market.

Make-up is a newly launched series of products, although the development is not mature enough, but it plays a critical role in helping the company to form a complete product system.

In its product strategy, company Z also made full use of the strategy of product combinations by launching product sets, selling product combinations at slightly discounted prices, catering to the demand for gift-giving by launching products in gift boxes, combining them according to customer demand, and selling them in matching packages to improve sales.

Table 4.5 Product Price List of Cosmetic Company Z

Number	Product Line	Pieces/Set	SKU	Code	Price(RMB)
1	Wash and Care	Pieces	Shampoo	SP	68
2			Shower Gel	SG	45
3		Set	Wash Set	WS	98
4	Mask	Pieces	Mask	MK	78
5			Herbal Mask	HMK	156
6			Whitening Facial Cleanser	WFC	178
7	Skin Whitening	Pieces	Whitening Lotion	WL	216
8			Whitening Concentrate	WCT	318
9			Whitening Emulsion	WE	256
10			Whitening Cream	WTC	388
11			Whitening Eye Cream	WEC	298
12		Set	Whitening Basic Set	WBS	720
13			Whitening Premium Set	WPS	1280
14		Pieces	Man Cleanser	MCS	88
15			Man Emulsion	ME	128
16			Man Cream	MC	216
17	Make Up	Set	Man Set	MS	368
18		Pieces	Eye Liner	EL	65
19			Eyebrow Pencil	EP	65
20			Eye Shadow	ES	98
21			Eye Black	EB	98
22			Liquid Foundation	LF	198

Source: Cosmetic Company Z

#### 4.3.5. Pricing and placement

About pricing and place, In terms of pricing principles, Company Z adopts the product differentiation pricing method, using the prices of competitors and products of similar efficacy in the market as a reference for pricing. By studying competitors' production conditions, costs, product quality, price levels and other factors, and then determining product prices based on its competitive strength, costs and profit margins. Company Z's products in the cosmetic market, compared with products of the same efficacy and similarly positioned companies, the price is relatively low, lower than the average level of 10%-15%, with a strong price advantage. In terms of places, since company Z does not use the agent model, online and offline are used in the form of directly-managed stores, the company directly manages to form a unified price standard, there is no intermediary to earn a margin, profits can be controlled, the quality of products and services can be controlled.

Company Z has diversified sales channels. When the company was founded, an e-commerce business department was setup, which is responsible for developing e-commerce business, selling products on online sales platforms, as well as accepting direct purchases from enterprises. In January 2023, Company Z officially set up the first offline directly-managed

store, located in the middle- and high-end commercial area in the center of Kunming City, and sales reached 5 million CNY in just half a year, significantly exceeding the company's original sales target. As the post epidemic era, the economy recovered and consumption levels continued to grow, and Company Z entered a period of rapid development.

#### **4.3.6. Promotion**

Company Z's promotion policy is weak. The company does not have a mature product promotion system and program, the only way to promote is through the staff to deliver product information to customers. Company Z organizes regular training for the company's employees and store sales staff, including product knowledge, skin care knowledge, sales skills, etc., and also adjusts store product displays according to the season and the changes in customer demand.

#### **4.3.7. Customer Relationship Analysis**

##### **4.3.7.1. Problem Analysis of Company Z**

According to the actual sales situation of company Z's offline store, it has been operating well for six months since its opening, with excellent sales performance, but according to the results of the interviews with the head of company Z and the employees of the store, there are still some problems in the operation of the store, such as unstable customer traffic, slow growth in sales performance, low amount per customer transaction, and low frequency of repeat purchases.

To address these issues, it was conducted several interviews with Mr. Chen, the manager of company Z's store. Mr. Chen is responsible for the daily operation of Z's store, and his work covers the store's product inventory, product quality control, store personnel training and the store's financial situation. When talking about the current performance of the store, Mr. Chen pointed out that the problems of unstable customer traffic, slow growth in sales performance, low real customer order price, and low frequency of repeat purchases are not originated from the product, price, inventory, etc.. He believes that the most critical problem is the store's poor customer relationship management. In order to confirm the existence of this problem, it was analyzed the company Z's product quality, source inventory, product price and customer relationship to confirm the possibility of the problem raised by Manager Chen.

For company Z, high quality products are the biggest competitive advantage. In terms of products, company Z has invested a lot in research and development costs to ensure the market advantage of its products. According to the customer feedback and product evaluation provided by company Z, it is found that in the customer feedback records, there are almost no

complaints about the product quality, the customer's evaluation of company Z is very high, and a small number of dissatisfied evaluations are due to the service and product mailing inconvenience aspects. This shows that there are no obvious shortcomings in the quality of company Z's products.

In addition, the inventory structure of a company's products can have an impact on sales and operations, out-of-stock can reduce the company's revenue and create unnecessary losses. Company Z manages its sources and stocks strictly, the quantity of stock can meet the sales, and there is enough reserve stock to cope with the sudden rise in consumer demand, so in terms of stock, it does not have any negative impact on the operation of company Z's stores.

We compared Pechoin and XIEFUCHUN, the biggest competitors of company Z in the market, and found that among the same or similar products, the price of Pechoin and XIEFUCHUN is generally higher than the price of company Z. The average price of brand Pechoin's products is 9.68% higher than company Z's, while XIEFUCHUN's average price is 7.14% higher than the price of company Z. Combined with the understanding and analysis of China's cosmetics market price, company Z, as a mid- to high-end cosmetics brand, has a price positioning in line with the low-end market. So, in terms of price, company Z has a competitive advantage in the domestic market.

Based on the analysis of these three aspects, the main problems affecting the marketing performance of company Z's stores are not in the three aspects of product quality, source inventory and product price. In this thesis, we will make a further analysis of the customer relationship in company Z will be made.

#### **4.3.7.2. Analysis of company Z's Problems in CRM**

In the interview, Mr. Chen, the store manager, stated that the store lacks depth and breadth in CRM at present, the brand is unable to establish effective communication and linkage with customers, do not understand the customer enough, and has not built a clear profile of the customer. Poor CRM leads to erratic customer traffic, slow growth in sales performance, low amount per customer transaction, and less frequent repeat purchases.

Company Z has the following major problems in CRM:

##### **1. Failure to identify customers**

Since its establishment, Company Z has not set up a CRM system to manage its customers, only has some simple purchase records and receipt records, and does not have any other system to identify customers, manage customer data, and even more. So, it cannot segment its customers, as for the lifecycle of customers, company Z has no way of knowing it

either. The only connection between Z's store and its customers is the purchase record, which includes simple information such as the type of consumption goods, amount of money, and time of the day. Due to the single store, the majority of repeat customers are local residents of Kunming, they are familiar with the store's sales staff and may create a simple emotional bond, but this is not enough for the store staff to be familiar with each customer's consumption habits, not to mention customize services for the customer.

## 2. No differentiation of customer groups

Company Z launched a membership APP in March 2023, trying to divide customers into membership levels, but the APP was launched for a short time, customers did not develop the habit of using it, so the operation of the APP is not running well at present, and rarely collected information about the customers. According to the amount per customer transaction, the APP is divided into ordinary membership, silver membership, gold membership and black gold membership. However, the development of the APP is in the primary stage, the system is simple and the function is not perfect enough. After purchase, customers need to manually input the information and amount of the purchased in the APP, then the information will be reviewed by the staff in the background, so that they can be approved and passed to get the points record. The whole process is complicated, takes time and requires manual operation, so many customers will choose to give up their membership points, which means company Z will lose the opportunity to have a long-term link with those customers.

## 3. Failure to maintain good interaction with customers

As company Z does not have a clear customer profile and is unable to effectively divide its customer in groups, so it cannot interact well with different customers, company Z is in a passive position throughout the sales process, unable to communicate effectively with consumers. The store attracts customers only through some holiday discount or full-price activities, but out of the protection of brand value, there are not too many of such activities, and the discount will not be very strong. For example, during the Valentine's Day in February 2023, the store launched a purchase of over 5200 with a discount of 8.8%, and a free bouquet of roses, but did not produce very good results, and only a few customers participated in the activities. Some local customers repurchase company Z's products over a long period of time, they have some daily communication and interaction with the familiar store staff, but there is no data to show that such interaction has led to an increase in sales. The store staff also lacks knowledge in CRM, the company does not have the appropriate incentives to encourage the store staff to carry out CRM; so, in terms of customer interaction, company Z is in a disadvantageous position.

#### 4. Lack of customize, did not establish customer loyalty

As a young cosmetic company, company Z is still in the early stage of development. At this stage, company Z focuses on product development and product series improvement, trying to build a good foundation of high-quality products, develop multiple series of multi-effective products in order to reach a wider range of customer groups. But they have ignored the customization to better fit the customers preferences and the cultivation of customer loyalty. However, the opening of offline stores has put the need for customization on the agenda.

Offline store is the best channel for company Z to communicate directly with customers. Face-to-face communication can sense the customer's emotions, compared with the online purchase process. The consumption process in the store is more likely to let customers get good service, real communication and experience. As such, company Z can also use this platform to convey the brand's philosophy and culture to customers.

With the upgrading of customer's demand, customization is an indispensable step in the development of the offline store. Currently, company Z has only one item in terms of customer customization, which is the launching of product sets and gift boxes, which intends to satisfy some customers' demand. However, such customization is common and based on company Z's past experience, it may not meet the real needs of customers. Only by understanding what customers really want, the company can customize the products for them to increase their satisfaction, and then get their loyalty.

In summary, after a series of interviews and data verification, it can be concluded that the biggest problem currently existing in Z's store is poor management of customer relationships. Only with good CRM, company Z can deal with the business difficulties that they are currently facing, then improve their sales performance and accelerate the company's growth.

#### **4.3.8. Customer Profile Analysis**

In order to promote the rise of customer traffic, increase the amount per customer transaction and customer repurchase frequency, it is needed to solve the current problems of CRM in company Z. In order to develop a CRM program, the first step is to find an accurate customer profile.

Since company Z has not set up an effective CRM system yet, and the membership APP is still in the early stage, it does not have enough information about customers, such as customers' characteristic values and labels. According to the sales records of Z's store, it can only obtain simple information such as consumption items, amount, time, etc., and it is difficult to obtain customers' information and data, so it is not possible to categorize the customers by using the traditional clustering analysis. The customer profile analysis can only be done based

on the final purchase decision of the customer and the amount per customer transaction. In order to obtain the basic characteristics of such customers, it can only be done through the method of physical research in offline stores.

It is important to ensure the authenticity of the sampled data, but also that it is representative enough. Thus, it was decided to choose all the sales data from May 1, 2023 to May 7, 2023, as a sample for the analysis and research of this thesis. The reasons are as follows.

The sales at Z's store have increased steadily since it opened in January 2023, but due to problems with CRM, sales have increased at a slower rate than expected. The difference in total sales from month to month is not significant, so the sales data of May is also reflective of sales in other months.

The period from May 1, 2023 to May 7, 2023 happens to be Monday through Sunday, which can reflect a full week of sales, including weekdays and weekends, and May 1-3 is a national public holiday, so the data for this period is comprehensive and plentiful, reflecting the operation of different types of sales days.

With the authorization of company Z and the consent of store's manager Mr. Chen, we personally researched and collected data at Z's store during the period of May 1, 2023 to May 7, 2023. It was collected basic data from all customers who came into the store within the business hours of 9 a.m. to 6 p.m. every day.

During this period, a total of 422 observations were collected, including gender, city, date of consumption, time of consumption, amount of consumption, consumption category and whether repurchase. In addition, considering that natural factors such as weather or temperature may have an impact on store traffic and consumption decisions, we also checked the weather conditions and temperature of each day according to the survey date, which was analyzed as the consumer's characteristic values.

The following table shows some of the raw sales data:

Table 4.6 Original Sales Data for Z's Stores May 1, 2023 to May 7, 2023

Number	Gender	City	Date	Weather	Temperature°C	Time	Order Price	Purchase Category	Repurchase
1	Female	Baoshan	2023/5/1	cloudy	19.5	09:36:34	2551	Whitening Premium Set, Whitening Basic Set, Eyebrow Pencil, Eye Shadow, Whitening Cream	no
2	Male	Lijiang	2023/5/1	cloudy	19.5	09:44:36	1544	Man Cleanser, Wash Set, Whitening Premium Set, Mask	no
3	Female	Kunming	2023/5/1	cloudy	19.5	10:03:20	764	Whitening Cream, Whitening Eye Cream, Mask	yes
4	Female	Baoshan	2023/5/1	cloudy	19.5	10:50:35	2551	Whitening Premium Set, Whitening Basic Set, Eyebrow Pencil, Eye Shadow, Whitening Cream	no
5	Female	Lincang	2023/5/1	cloudy	19.5	11:00:53	1456	Whitening Premium Set, Mask, Eye Shadow	yes
418	Female	Kunming	2023/5/7	sunny	..... 23	17:47:59	146	Shampoo, Mask	yes
419	Male	Kunming	2023/5/7	sunny	23	17:52:27	484	Wash Set, Man Cleanser, Whitening Eye Cream	no
420	Male	Kunming	2023/5/7	sunny	23	17:56:38	166	Man Cleanser, Mask	yes
421	Female	Kunming	2023/5/7	sunny	23	17:57:42	176	Mask, Eye Shadow	yes
422	Female	Honghe	2023/5/7	sunny	23	17:59:19	2629	Whitening Premium Set, Whitening Basic Set, Eyebrow Pencil, Eye Shadow, Whitening Cream	no

Source: Author

From the 422 observations, 355 are local customers from Kunming, accounting for 84.12%, and 67 are regional customers from cities around Kunming and other provinces, accounting for 15.88%. Since it is more difficult to obtain other information about customers, such as age, education situation, family status, occupation, income, etc., this thesis is only able to categorize the customers based on the basic consumption behaviors, to find out the characteristics related to the customers who have high, medium, and low consumption amounts, and to build an initial customer profile for company Z from this perspective. The data was analyzed using the software Weka 3.8.6.

Kunming is denoted as Local, and regions other than Kunming are denoted as Region.

In the 422 observations, the highest amount per customer transaction is RMB 3,544, the lowest consumption amount is RMB 45, and the average consumption amount is RMB 559.85. In order to distinguish customers with different consumption amount, customers with less than RMB 200 consumption amount are regarded as low value customers, recorded as Low in the table; those with consumption amount greater than RMB 200 and less than RMB 1000 are regarded as middle value customers, recorded as Middle in the table; those with consumption

more than 1500 RMB are regarded as high value customers, recorded as High. In terms of business hours, 09:00:00-11:59:59 is recorded as Morning, 12:00:00-13:59:59 is recorded as Noon, and 14:00:00-18:00:00 is recorded as Afternoon. In terms of temperature, below 20 degrees is Cold, 20-25 degrees is Cool, and higher than 25 degrees is Hot.

Table 4.7 shows the codification of each variable.

Table 4.7 Software Language Code Translations for Decision Tree

Characteristic Term	Types	Software Language Codes
Gender	Male	M
	Female	F
City	Kunming	local
	Cities except Kunming	region
Time	09:00:00-11:59:59	morning
	12:00:00-13:59:59	noon
	14:00:00-18:00:00	afternoon
Weather	sunny	sunny
	cloudy	cloudy
	raining	raining
Temperature	Below 25 °C	cold
	Between 25 °C to 30 °C	cool
	Above 30 °C	hot
Order Price	Below 200 RMB	low
	200-1000 RMB	middle
	Above 1000 RMB	high

Source: Author

After cleaning, organizing and translating the raw data, the data content is displayed as shown in the following table.

Table 4.8 Decision Tree's Sample Table (Amount Per Customer Transaction)

Gender	City	Weather	Temperature	Time	Order Price
F	region	cloudy	cold	morning	high
M	region	cloudy	cold	morning	high
F	local	cloudy	cold	morning	middle
F	region	cloudy	cold	morning	high
F	region	cloudy	cold	morning	high
.....					
M	local	sunny	cool	afternoon	low
F	local	sunny	cool	afternoon	low
F	local	sunny	cool	afternoon	low
F	local	sunny	cool	afternoon	low
F	local	sunny	cool	afternoon	low

Source: Author

In this chapter, the purpose of the research is based on customers' consumption behavior and decisions, to establish an initial customer profile of Company Z, i.e., how the different characteristics of customers influence the high, medium and low levels of consumption. In this thesis, we use the Decision Tree method in machine learning to build a data model for the analysis. The role of the Decision Tree in this thesis is to select the best segmentation attributes. As a supervised computational method, it is able to predict what kind of characteristics the customers have in the pattern of the existing data, with different amount per customer transaction.

Weka 3.8.6 was used to analyze the sales data of company Z. The algorithm `weka.classifiers.tress.J48` was used. The advantage of this algorithm is its high accuracy rate and strong application.

The classification results are shown on Table 4.9.

Table 4.9 Decision Tree Classification Results (Amount Per Customer Transaction)

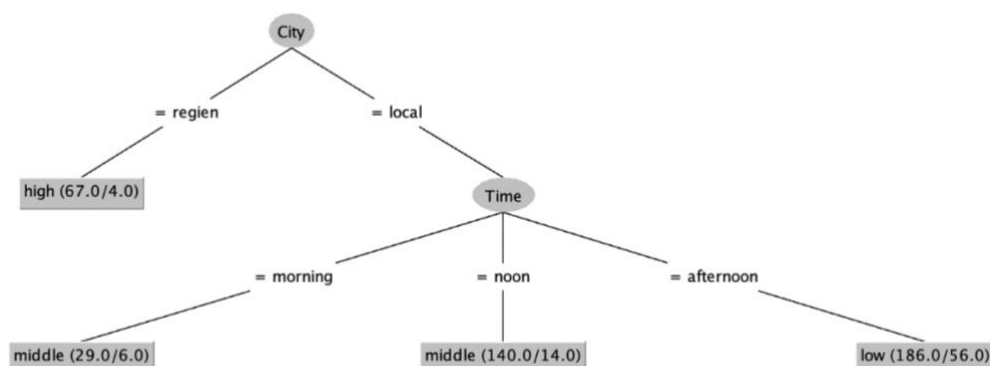
Correctly Classified Instances	342	81.0427%
Incorrectly Classified Instances	80	18.9573%
Kappa statistic	0.6972	

Source: Results of Weka 3.8.6 analysis of consumption data from Company Z

The predicted model accurately classifies about 81% of the observations, which could be considered a high accuracy rate. The Kappa statistic value is more than 0.6, which indicates that the classification is better and the analytical prediction is highly accurate.

The Decision Tree Classification Model diagram is shown on Figure 4.5.

Figure 4.5 Decision Tree Classification Result Model Diagram (Amount Per Customer Transaction)



Source: Results of Weka 3.8.6 analysis of consumption data from Company Z

The following pattern could be found from the above figure:

- Customers in other regions than Kunming have relatively high unit amount, and the model prediction rate is 94.37% correct.
- As regards to the Kunming local customers, the amount of consumption per unit is medium to low, and most of these customers like to shop at noon and afternoon, which tends to medium level of consumption at noon, and tends to low level of consumption in the afternoon, and the model accuracy rate is 90.91% and 76.86% respectively.
- Weather and temperature have no significant effect on the level of consumption.

Taking these results into consideration, it can be concluded that the initial customer profile of company Z is as follows:

- Group A customers - Customers from other regions than Kunming. These customers have a higher unit amount, mainly come to Kunming for business and tourism purposes, they are mainly business-people and white-collar workers, have a better economic situation, have a strong consumption ability, and they have a low degree of price sensitivity, they care more about the quality of the product and the value of the brand. The possibility of repurchase for this group of customers is low.
- Group B customers - Kunming local customers, the amount per customer transaction in the noon is significantly higher than the amount per customer transaction in the morning and afternoon, therefore, in the management of customer relationship, we can purposefully guide this kind of customer's consumption time. These customers are mostly local Kunming company employees, self-employed bosses, college students and housewives, price sensitivity is high, and the possibility of repurchase is also high.

According to the above analysis, company Z's customer segmentation has an accuracy rate between 76.86% and 94.37%. Since company Z has only one store at present, in the case that the CRM system has not yet been established and various customer data are missing, in the first stage of company Z's establishment of a CRM program, this customer profile is valuable to be adopted and referred, and used as the decision-making basis for the CRM program.

#### 4.4. SWOT Analysis

In this chapter, the SWOT analysis of company Z is presented. By understanding the internal strengths and weaknesses of company Z, and the external opportunities and threats it faces, it will be possible to formulate the CRM plan for the company.

Table 4.10 SWOT Analysis for Company Z

Strengths	Strong independent research and development ability, with its impact on the product development.
	The brand concept based on traditional Chinese culture is in line with the today's market trend
	The ingredients of the products are safe, natural and non-stimulating.
	The brand concept meets the needs of customers for environmental protection.
	High degree of brand recognition by local customers.
	Product prices are relatively low compared to similar products, cost-effective.
	Excellent product quality.
	Own factory which strictly controls the quality and cost.
Weaknesses	The brand is too young, lack of market recognition of the brand
	Serious lack of personnel in management and operation.
	The product line is not rich enough to meet the needs of more customers.
	Promotional tools are not attractive enough.
	Not enough sales channels
	Lack of customized service.
	Lack of effective communication with customers.
	Lack of a CRM system.
	Lack of knowledge about the customer profile, preferences, and behaviours.
	Lack of social media platform marketing.
Opportunities	China's cosmetic market has a huge potential for growth.
	New media social platform promotes the development of cosmetic industry.
	The awakening of men's skincare awareness brings new market opportunities.
	Consumption upgrade brought by the increase of national disposable income.
	National self-confidence brings support for domestic cosmetic brands.
	Increased government support for domestic brands.
Threats	Fierce competition in the cosmetics industry.
	Competitive threat from international cosmetic brands.
	Improvement of cosmetic industry standard and strengthening of regulation.
	Adverse effects of the economic downturn.
	Threat of substitutes due to advancing technology.

Source: Author

## **4.5. CRM Plan Objectives**

The main objective of this project is to design a CRM to the Company Z. To do so, the IDIC model will be used, with its four steps: accurately identify customers, provide products and services based on customer differentiation, improve the efficiency of customer interactions, and customization and personalization.

With the implementation of this plan, it is intended that Company Z reaches the following objectives:

- 20% sales growth in 2024 compared to 2023
- 50% increase in new APP registrations
- Increased customer loyalty and 20% increase in customer repurchase rate.

## **4.6. IDIC model**

### **4.6.1. Identify**

For a company, identifying customers is the first step in CRM.

In order to understand which groups of people are the real customers, it is necessary to create an accurate customer profile through fine-grained data analysis; it is not enough to merely know the consumer's name, address, and purchasing information.

As much more information is collected about each customer, the better their habits and preferences are known.

In the retail sector, where customer information is extremely valuable, but access to customer data is very difficult, it is important for Company Z to accurately define which customer information to be collected, establish a standardized system to collect it, keep customer data secure and actual and manage it appropriately, and finally, analyze and utilize the data with appropriate analytical tools.

To achieve the above objectives, it is suggested that Company Z take measures in the following areas:

1. Establish a CRM system, pay attention to the investment and use of the company's system and software, improve the customer information database, establish and upgrade the collection, entry, storage and other functions of customer information.

2 Strictly classify, process, and keep data confidential. After the collection of customer data, the system can generate reports according to the needs of different businesses and departments, and different reports should differentiate between the level of importance and the level of protection, to ensure that the customer's private information can be properly kept confidential.

3 Make full use of the data, effectively analyze the customer data, obtain effective information and knowledge from it, re-learn the data, and formulate corresponding CRM programs based on the results of data analysis.

In the research of this thesis, due to the lack of customer identification in Company Z at present, we can only establish a customer profile for Company Z based on the existing store sales data. According to the analysis of customer profiles in chapter 4 to 5 of this thesis, it is concluded that the existing customers of Company Z can be categorized into two major customer groups, Class A and Class B (according to the high and medium levels of consumption). In this chapter, we will continue to use the Decision Tree method to deeply analyze the data related to product sales, to mine the clues related to customer decision-making, and to identify whether the repurchase behavior of customers is related to the category of the products purchased.

Now we organize the raw sales data and import it into Weka 3.8.6 for analysis, and the data content is displayed in the table below.

Table 4.11 Decision Tree's Sample Table (Repurchase or Not)

<b>Wash&amp;Care</b>	<b>Mask</b>	<b>Whiting</b>	<b>Man</b>	<b>Make Up</b>	<b>Repurchase</b>
no	no	no	no	yes	no
yes	yes	yes	yes	no	no
no	yes	yes	no	no	yes
no	no	yes	no	yes	no
no	yes	yes	no	yes	yes
.....					
yes	no	no	yes	no	no
no	yes	no	no	no	yes
no	no	no	no	yes	yes
yes	no	no	no	no	no
yes	no	no	no	no	no

Source: Author

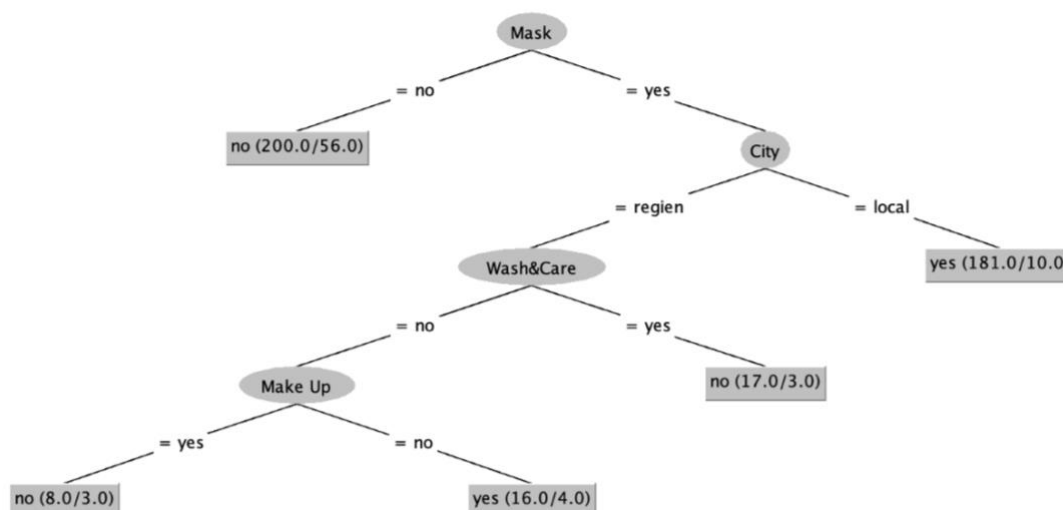
Table 4.12 Decision Tree Classification Results (Repurchase or Not)

Correctly Classified Instances	346	81.9905%
Incorrectly Classified Instances	72	18.0095%
Kappa statistic	0.6436	

Source: Results of Weka 3.86 analysis of consumption data from Company Z

From the classification results, it can be concluded that the Decision Tree has a high prediction accuracy (about 82%). The Kappa statistic is 0.6436, which is greater than 0.6, indicates that the Decision Tree has a better classification effect. So, the model is highly accurate and can be used as a basis for customer's decision making and customers classification. The visualized Decision Tree is shown in the figure below:

Figure 4.6 Decision Tree Classification Result Model Diagram (Repurchase or Not)



Source: Results of Weka 3.86 analysis of consumption data from Company Z

From this Decision Tree diagram, we can conclude the following:

The local customers who purchased the mask, 181 of them repurchased, and only 10 of them did not repurchase, the model's correct probability reached 94.76%, which can be used as the basis for defining the customer group.

Through the analysis, we can conclude that in addition to Type A and Type B customers, there exists a category of customers in Company Z's current customer group, that is, the local customers in Kunming who have purchased mask products, with a 94.76% possibility of repurchase behavior. This conclusion was confirmed by checking with Mr. Chen, the store manager of Company Z, he stated that local customers who purchased mask products in their first consumption are more likely to enter the store several times and purchase mask products

several times. Therefore, we define this type of customers as Type C. These customers have high price sensitivity in their first consumption, preferring to buy mask products with lower amount per customer transaction, and since Kunming is located in Yunnan Province, where Chinese herbs are abundant, local customers are more likely to love and trust the herbal ingredients in the masks, and their repurchase possibility is higher.

Table 4.13 Customer Identification Characteristics Table of Company Z

Customer's Type	A	B	C
<b>Definition</b>	Customers outside of Kunming	Local customers in Kunming	Local customers in Kunming who purchased mask product
<b>Characteristics</b>	1. Good economic foundation and strong consumption ability 2. Higher amount per customer transaction 3. Mainly are business people and white-collar workers. 4. Low price sensitivity 5. More concerned about product quality and brand value 6. Lower possibility of repurchase	1. Mainly are company staff, self-employed owners, students and housewives. 2. Higher amount per customer transaction at noon. 3. The amount per customer transaction of afternoon consumption is on the low side. 4. Sensitive to product price 5. High possibility of repurchase	1. High price sensitivity 2. More trust in products with herbal ingredients 3. Higher probability of purchasing masks for the first time of consumption 4. Higher customer loyalty 5. Higher probability of repurchase

Source: Author

At present, Company Z has not yet established a CRM system, in terms of building customer profiles, as the first step of customer identification, distinguishing the three categories of A, B, C customers is very valuable for Company Z. These important rules can provide a solid data base for Company Z to establish a CRM program, which is worth promoting and applying.

#### 4.6.2. Differentiate

Based on the analysis of Company Z's customers in the above chapters, we have categorized the customer groups, and in order to establish healthy, good and sustainable customer relationships, we need to adopt differentiated CRM measures for different customer groups.

Table 4.14 Differentiated CRM in Company Z

Differentiated Customer Relationship Management Measures	<ol style="list-style-type: none"> <li>1.Establish a company-wide concept of customer relationship management.</li> <li>2. Improve APP and CRM system to further build customer's differentiation.</li> <li>3.Strengthen the professional training of sales persons and use different promotion methods for different customers.</li> <li>4.Strengthen the research and development of Chinese herbal medicine series products.</li> <li>5. Introduce product combinations that are more suitable for region customers.</li> <li>6. Emphasize the development of online sales channels.</li> <li>7. Adopt different media marketing mentions according to customers' differences.</li> </ol>
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Source: Author

1.Establish a company-wide concept of customer relationship management.

CRM is an important thing that today's companies should pay attention to. In addition to providing quality products and services, establishing a long-term and stable relationship with customers will help brands to fully understand their customers, recognize their real needs, and create the value they want, which will enhance customers' trust in the brand and achieve higher customer satisfaction and loyalty, so that can improve the brand's performance and increase the competitiveness in the market.

Implement CRM is not a task for only the company owner or a particular department, but should be placed in a company-wide strategy, and it is an important concept that all employees should be aware of. Every employee represents the image of the brand, only if every employee is customer-centered can truly enhance customer satisfaction and loyalty, thus allowing for more effective CRM.

Only if the entire company recognizes the construction of a CRM system, recognizing the importance of CRM, will it be possible to fundamentally create a good relationship between that brand and its customers. Company Z should care for all its employees, providing fair benefits and training opportunities, thus forming a strong bond between the company's executives, employees, customers, and suppliers.

## 2. Improve the APP and CRM system to further build customer's differentiation.

It is urgent to build customer differentiation, improve the APP and CRM system. CRM helps Company Z to precisely define customer information, which is the most effective means to collect customer data.

At the same time, Company Z should enhance the functionality and ease of use of the APP, to make it easier for customers to upload data and get points, as well as to view their rank and the permissions corresponding to their rank, and even to purchase goods directly from the APP and enjoy services that are not available in stores. Loyalty programs and promotions facilitate the collection of customer's data. Company Z can encourage new customers to sign up for membership, and prompt them to show their information in the APP when they make purchases, and then track their purchasing information and browsing habits through the backend data.

## 3. Strengthen the professional training of sales persons and use different promotion methods for different customers.

According to the differentiation of customers, salesperson in Company Z's store should use different sales tactics and marketing approaches when they facing different customers. Identify the customers, motivate them to purchase according to their differentiation and possible consumption tendency, and increase the amount per customer transaction as much as possible.

When salespeople identified customers in Type A, i.e., customers in regions other than Kunming, there was a high probability that they would purchase more than RMB 1,000, so they could be recommended higher-priced product sets, such as the Whitening Basic Set and the Whitening Premium Set.

When customers of Type B enter the store in the afternoon, they tend to spend less than RMB 200, and the salesperson can recommend some medium-high priced products to them, such as the Skin Whitening series products, which are priced between RMB 178-388. If Type B customers enter the store in the middle of the day, salesperson should pay more attention to them, because they tend to purchase products in the RMB 200-1000 range, and if the quality of their service is improved, it is likely to bring in a higher amount per customer transaction and generate more revenue for Company Z.

When facing local customers in Kunming, we should try our best to convert them into Type C, which are more loyal to the brand. When they enter the store, try to make their purchase list to include mask products, especially herbal masks, these two products are low-priced, as a first-time purchase product, easy to be accepted by local customers, and once bought a mask product, this customer's repurchase possibilities will be greatly improved, so for Type B customers, salesperson should pay special attention to the marketing of mask products.

#### 4.Strengthen the research and development of Chinese herbal medicine series products.

In the sales data of Company Z, there are 355 local customers in Kunming, accounting for 84.12% of the total sample. Emphasizing the needs of local customers in Kunming can bring incalculable benefits and value to Company Z.

According to the results of the data analysis, local customers in Kunming are characterized by higher stickiness and higher repurchase rate. Out of their love for local specialty herbs, customers in Kunming especially like to buy herbal masks from Company Z. In addition, the price of mask products is low, so that even customers who are more price-sensitive, will not consider it for too long when they make consumption decisions on mask products. According to interviews with sales staff at Company Z's stores, they said that it really does not take much effort and time to market herbal masks, and that local customers are generally more receptive to herbal masks.

After researching Company Z's product line, we found that Company Z's herbal products only include herbal masks and not more other products. Therefore, it is recommended that Company Z establish a department specializing in the R&D of herbal products, invest more in this department and supply more resources, and launch more other skin care products containing herbal ingredients as soon as possible. This will not only quickly satisfy customer demand and enrich Company Z's product line, but also win the favor of more local customers, increase customer satisfaction and loyalty, and thus achieve the goal of CRM.

#### 5. Introduce product combinations that are more suitable for region customers.

Most customers in Type A come to Kunming for business or travel. Since Company Z's brand originated in Kunming and the store is in a prominent location in the city center, the

brand will be featured as a local specialty by Type A customers. Compared to local customers, Type A customers generally have a higher amount per customer transaction, and they are more inclined to purchase higher-priced sets of products, or purchase multiple products at once. For this type of customer, Company Z can introduce more product combinations to attract them to buy in packages. This includes launching seasonal limited edition products, or product gift sets, for example, launching limited product sets during the Chinese New Year, which is a traditional Chinese festival, to attract Type A customers make purchases when traveling to Kunming during the holiday.

#### 6. Emphasize the development of online sales channels.

In the era of digitalization, companies cannot ignore online sales channels, and companies like Company Z that sell products directly to C-end customers even more. At present, most of the customers who did not live in Kunming are mainly consuming in Z's store, but they live far away and have less chances to travel to Kunming, their repurchase rate is low, so even if they recognize Company Z's brand and products, they are unable to make a convenient purchase or even a repeat purchase.

Therefore, the construction of online sales channels is especially important. It is recommended that Company Z build an official website with sales functions as soon as possible, and also cooperate with online shopping centers, such as Amazon, Taobao, and Jingdong. The improvement of online channels can not only promote the consumption of region customers, but also promote the consumption of local customers, when they recommend the product to their friends and family, new customers can also buy the product easily, which is a strong impetus for Company Z to expand the customer base, and can also build a more intimate relationship with the customers.

#### 7. Adopt different media marketing mentions according to customers' differences.

In addition to the improvement of online sales channels, promotion on social platforms is also important. Company Z can utilize emerging social platforms to promote its brand, educate and guide customers. Currently, many social platforms in China can be targeted to help companies promote and publicize, such as RED and TickTalk, both of them can customize their publicity plans to meet the needs of the brand, including pushing the advertisements to the portion of customers the brand wants to acquire. Therefore, when promoting on such platforms, Company Z can differentiate its messaging for different customer categories.

For the Type A customers, Company Z should convey the brand concept, product value and company culture. Therefore, for the advertisements targeting region customers, Company Z can include the promotion of online sales channels and the exposure of the official website. For local potential customers, Company Z can publicize the company's unique herbal

ingredients as well as mask products, and can also put photos and addresses of the stores, prompting local consumers to visit the stores to make purchases, and boosting the store's traffic.

#### **4.6.3. Interactive**

As a direct-to-consumer brand, deep and effective interaction with customers must be an important part of Company Z's management of customer relationships. Communicating with customers allows the brand and customers to understand each other, lets the brand know what the customer wants and needs, and gets feedback from the communication, integrates the information, and incorporates the customer's input in the brand development process.

In-depth customer interaction can reduce the distance between brands and customers. Barrier-free communication between the two can make CRM more effective. In order to achieve this goal, Company Z should take the following actions:

##### **1. Create online interaction channels**

In the past, brands and consumers used to communicate with each other through phone calls, emails and letters, but with the development of networking and digitalization, it is easier and more efficient for companies to communicate with customers through online platforms. Company Z can set up different interactive channels, to interact with customers as much as possible, for example, by using chatting tools such as WeChat, which can build up a customer group and provide a channel for them to communicate and obtain information. Utilizing RED Live and TikTok Live to interact with customers is also an effective way of CRM, and the sales function of live streaming also makes it easy for customers to purchase products. Promotions on official websites and online shopping malls are also a good way to interact with customers, and customers can post comments and product experience after purchasing products, which attracts more customers to participate in the interaction.

##### **2. Increase Emotional Interaction with Customers**

Once customer identification and customer differentiation are completed, Company Z can satisfy the emotional needs of different customers. For example, to care for customers on special holidays, on Mother's Day, it can send holiday blessing SMS for female customers who are mothers, on Valentine's Day, it can give free roses to couple members who come to the store, and on weekdays, it can also push the weather forecast and skincare tips for customers, and so on. In addition to this, it is also important to provide different birthday gifts and offers according to the consumer's membership level. Company Z can analyze the customer data to derive the preference and design an exclusive discount package for the customer and send it

with a text message. Providing humanized services can stimulate customers' emotional resonance and create an emotional link between customers and the brand beyond consumption, making it easier for customers to develop attachment to the brand, and win the satisfaction and loyalty of customers.

### 3. Increase opportunities for customer to interact face-to-face

Face-to-face communication is the most effective way to interact and generate links with customers. A variety of marketing activities can be organized, and Company Z can make use of its stores to create a third space for customers, engage in activities and communication, such as organizing afternoon tea activities, flower arranging activities, and parent-child activities.

Company Z can hire skin care professionals to provide customers with free skincare classes and beauty seminars. In addition, Company Z can offer exclusive new product experience events for important customers, such as those with the highest membership levels, and give them priority access to the brand's latest product launches. Inviting members to participate in year-end appreciation parties is also an effective channel, which allows in-depth interaction with customers. These activities not only enhance emotional communication between Company Z and customers, but also increase information interaction, so that customers know more about the brand and develop a deeper trust in the brand.

In addition, customers can also be involved in the design and production of products, for example, inviting senior members of the brand's membership and senior skincare enthusiasts to participate in product development, taking them on a tour of the factory and the production process, and listening to their suggestions for product improvement, listening to the voices of customers will enable Company Z to produce better products.

### 4. Establish a specialized customer service department

After establishing channels to interact with customers, Company Z needs to focus on the construction of a CRM team to build a professional, customer-centered service as soon as possible. This department should efficiently utilize customer information, maintains long-term good relationships with customers, and builds a channel for customers to return visits and complains.

Company Z's customer management team should be able to accomplish the following tasks: handling customer requests, listening to customer needs, recording suggestions, comments and complaints, actively dealing with user problems, and providing timely feedback and responses when customers need it. All departments should be able to coordinate and communicate with each other to pave the way for CRM, and there should be no miscommunication, information blockage, and inconsistency of goals between departments.

Company Z should consider opening up the data system for all departments, and opening up different data privileges for different needs, to ensure that all departments can collaborate with each other and work together to create a good CRM system.

In addition to this, Company Z should pay attention to the training of account managers, organize regular internal communication meetings, and build an advanced customer information processing system to provide timely feedback and processing of customer needs.

#### **4.6.4. Customize**

In order to better achieve customer customization, we need to identify the real needs, consumption habits and consumption tendencies of customers. Customization is critical to achieving customer satisfaction. Based on the information collected about customers, it is important to tap into their needs, customize products and services, which meet their needs, in order to provide real value to customers. In Company Z's store sales data, there is another type of information that is very valuable, namely, which products the customer has purchased, and there is likely to be some correlation between these products.

For example, customers who bought product A usually have a high probability of buying product B at the same time, so there is a strong correlation between product A and product B. At this time, if product A and B is sold together as a combination, and attached to some promotional activities, it can greatly increase their sales, promote consumption and increase the amount per customer transaction.

The establishment of association rules between products requires the raw data to be pre-processed, Z company's products are divided into five lines, with a total of 22 SKUs, each SKU has its own product code, such as WS, MK, HMK, etc. The raw data is processed, and the data content is displayed in the following table:

Table 4.15 Sample data table of product association relationships

WS	MK	WEC	WBS	WPS	MCS	ME	.....	EP	ES
			yes	yes			.....	yes	yes
yes	yes			yes	yes		.....		
	yes	yes					.....		
			yes	yes			.....	yes	yes
	yes			yes			.....		yes
	yes	yes					.....	yes	yes
	yes	yes					.....	yes	yes
yes					yes	yes	.....		
	yes		yes				.....		yes
				..... .....					
		yes					.....	yes	yes
		yes					.....	yes	yes
		yes					.....		
		yes					.....		
	yes	yes					.....	yes	yes
yes					yes		.....	yes	yes
		yes					.....	yes	yes
		yes					.....		
	yes						.....	yes	yes

Source: Author

We use Weka 3.8.6 to establish the association rules between products, with the algorithm Apriori. This algorithm is more mature, has high accuracy, is better for the calculation of the confidence level, and suitable for the data mining of association rules. First of all, we set the data calculation rules, according to the situation of sale of company Z, we set the support degree of data mining is more than 0.1, the confidence degree is more than 0.75, after the calculation of Weka 3.8.6, we get the following three association rules:

- 1.MCS=yes 122 ==> WS=yes 102 <conf:(0.84)> lift:(2.25) lev:(0.13) [56] conv:(3.65)
- 2.MK=yes WTC=yes 60 ==> WEC=yes 46 <conf:(0.77)> lift:(3.05) lev:(0.07)[30]conv:(3)
- 3.EP=yes 87 ==> ES=yes 66 <conf:(0.76)> lift:(2.81) lev:(0.1) [42] conv:(2.89)

The above conclusions are organized on Table 4.16.

Table 4.16 Calculation results of product association rules for company Z

	Preterm	Postterm	Sample size	Confidence level	lift	conv
Rule 1	MCS	WS	422	84%	2.25	3.65
Rule 2	MK+WTC	WEC	422	77%	3.05	3.00
Rule 3	EP	ES	422	76%	2.81	2.89

Source: Results of Weka 3.86 analysis of consumption data from Company Z

These three rules are explained as follows. There is an association between products MCS and WS with a lift of 2.25, a confidence level of 84%, i.e., a customer who buys MCS has an 84% probability of purchasing WS. Similarly, a customer who buys MK+WTC has a 77% probability of purchasing WEC at the same time, and a customer who buys EP has a 76% probability of purchasing ES at the same time. In the above three rules, both the lift degree and correlation degree are greater than 1, and the confidence level is greater than 75%, which indicates that the correlation effect is very good and can be used as a reference basis for product combination sales strategy.

After checking the catalog, the products and prices corresponding to the above codes are listed on Table 4.17.

Table 4.17 Table of products and codes involved in association rules

Code	Product	Price (RMB)
MCS	Man Cleanser	88
WS	Wash Set	98
MK	Mask	78
WTC	Whitening Cream	388
WEC	Whitening Eye Cream	298
EP	Eyebrow Pencil	65
ES	Eye Shadow	98

Source: Catalog of Company Z

As such, it is proposed the following actions:

1. Customize product combinations and promotional offers

Based on the analysis of the above association rules, Company Z can design the following product combinations for sale, in order to stimulate consumption and increase the amount per customer transaction.

1) Design Man Cleanser and Wash Set as a product combination and sell them together with a discount of RMB 40.

2) When purchasing Whitening Cream and Whitening Eye Cream at the same time, the customer can get two boxes of Mask for free.

3) When the customer buys Eyebrow Pencil or Eye Shadow with any purchase, it is offered a buy 3 get 1 free, i.e. choose any 4 products and the lowest priced one is free.

4) Any purchase up to or greater than the amount of 350RMB, can get one box of Mask for free.

## 2. Customize exclusive member benefits and extra services

In addition to general public promotions, Company Z should provide brand members with additional services that are different from those offered to ordinary customers, especially for high-level members. Often, many companies provide high quality services to their old customers, which leads to higher satisfaction of the old customers, thus promoting, spreading and praising for the company, and improving the company's reputation, through which the company can get more rewards. This shows the importance of customized services.

## 3. Allocate resources according to customer value

Company Z should focus its effective resources on the most valuable customer groups, equip its core members with service specialists, provide one-on-one services, pay constant attention to them, pay attention to their needs and changes in consumption behaviors, have a keen sense of their decision-making, and provide them with the services they need in time. For potential customers who may become core members, Company Z should also be able to accurately identify them, pay constant attention to them, and provide them with professional services, so as to encourage them to transform into more advanced members.

## 4.7. Schedule and Budget

Since 2023 is the first year that Company Z will be implementing the CRM, there are a number of actions that will be necessary. The budget was agreed with Company Z. By consulting several suppliers, we estimated the average cost required to implement the planned actions, and used this as a basis to develop Company Z's budget form for this year, as shown in the Table 4.20.

In the table it can be seen the detailed costs associated with each action, which was calculated for the first year (October 2023-September 2024). Thus, the total cost of implementing this CRM plan on Company Z is 4.2 million RMB, of which 480,000 RMB is the one-time expenditure for system construction, 3.72 million RMB is the fixed cost that needs to be spent every year.

This action plan and budget table is not fixed, and will be adjusted according to the actual situation, in order to achieve the best results at each stage of development, and maximize the benefits to meet the CRM requirements of Company Z.

Table 4.18 Company Z's CRM Improvement Action Plan and Budget Table

Target	Plan	Action	Time	Budget (RMB )
Accurate identification of customers	Setting up a professional CRM system	Work with a professional software company	October 2023	300000
	APP upgrade and membership grading system improvement	Work with a professional software company	October 2023	150000
	Get a more accurate profile of customers	Collaboration with data analytics companies	November 2023	30000
Provide differentiated services and products	Company-wide training on CRM awareness	Staff training, organization of departmental learning events	Long-term, 3-5 times per year	200000/year
	Specialized training for salespersons in store	Specialized training for salespersons	First month of each newly hired salesperson	5000/person
	Development of new products and product combinations	Increased investment in R&D	Long-term	200000/year
	Development of online sales channels	Cooperation with major online shopping malls	Long-term	100000/year
	Marketing and promotion of new media platforms	Collaboration with new media platforms	Long-term	1000000/year
Effective customer interaction and conversation	Increase interaction channels and establish an online communication department	Investing in human costs to build new sectors	Right now	1000000/year
	Increase Emotional Interaction with Customers	Costs incurred for SMS, postage, etc.	Right now	120000/year
	Offline events, face-to-face interaction with customers	Cost of organizing offline events	Long-term, 3-5 times per year	100000/year

	Addition of a specialized customer service department	Investing in human costs to build new sectors	Right now	1000000/year
Customization and personalization	Developing product combinations and promotional offers	Actions can try to promote immediately	Right now	No
	Develop exclusive member benefits and additional services	Actions that require multiple attempts and adjustments	Long-term	No
	Allocate resources based on customer value	Actions that require multiple attempts and adjustments	Long-term	No

Source: Company Z and Author

#### 4.8. Assurance and Assessment of the CRM Plan

Assurance of CRM plans:

In order to ensure the successful implementation of the whole CRM action plan, the following aspects should be taken into consideration:

1. Company-level assurance: First of all, it needs the support of Company Z's management, as well as the recognition of all employees. Only if Company Z fully recognizes the plan internally, it will have the possibility to be implemented.

2. Channel assurance: The success of CRM cannot be separated from the unobstructed source of supply channels and sales channels, the customer's demand for products need to be met in time, with strict control and regular inspection, in order to effectively protect the product channels.

3. Price system assurance: The company should reasonably customize the product price, set the bottom line of the promotional price, establish a price audit system to ensure that the product sales price is uniform and reasonable.

4. Human resources assurance: Technological innovation, product development and customer communication are inseparable from the support of high-quality human resources. The competition of enterprises is also the competition of people, and obtain and retain excellent personnel are the reflections of the competitiveness of enterprises.

5. Financial assurance: The company's operations and all marketing activities cannot be separated from the financial assurance, the reasonable control of costs, the reasonable investment in the project, the monitoring of marketing expenditures, as well as the understanding and prediction of the revenue status of the enterprise, are critical topics to take into consideration.

Assessment of the implementation of the CRM plan:

To ensure the success CRM plan of company Z, monthly and quarterly assessment is necessary and important. Monthly assessments provide timely insight into the execution of the plan, quick identification and resolution of issues, early detection of deviations from goals and corrective actions to ensure the plan remains on track. Quarterly assessments provide more ample time to analyze data in depth and understand trends, allowing for more informed adjustment decisions. Quarterly performance measurements are also necessary, including metrics such as turnover, customer satisfaction, etc. This is also the basis for adjusting long-term strategies, and based on the performance of the previous months, plans can be optimized and goals can be reset. The following is how the assessment works:

1. Data Analysis: Collect and analyze sales data, customer feedback, and other information on a monthly/quarterly basis to assess the execution and effectiveness of the program.

2. Meeting Discussion: Regular CRM meetings, allowing team members to share their observations and experiences, assess the program together and discuss possible improvements.

3. Performance Reports: Create detailed performance reports, which summarize key metrics and trends, for discussion and analysis in meetings.

In summary, monthly and quarterly assessments can help the plan keep flexible, adaptable, and ensure that Company Z's CRM plan continues to be effective in providing value.

By September 2024, we will be able to evaluate the results of this year's CRM. The specific goals/targets to be achieved can be found in the CRM PLAN OBJECTIVES table and the Action Plan and Budget table in this thesis, and also, in one year's time, we will be able to evaluate the effectiveness of Company Z's CRM program by conducting a questionnaire survey of customers or by launching interviews with them.

If Company Z can achieve better CRM results within this budget, it means that the plan is effective, which Company Z will continue to repeat in the coming years. Of course, whether the plan needs to be changed depends on the growth of Company Z, the trend of the cosmetics market, and the changes in customer needs.

Despite the fierce competition in the market, no one can accurately predict the development of the market, and various uncertain events may happen in the future, we can still believe that Company Z can have a better and healthy development under the existing development and decision-making, and it is a very promising cosmetic company.

## 5. Conclusions

This thesis is a study of Company Z, a cosmetic company in China. After diagnosing a problem of CRM in the company and through reading a lot of literature, practice and analysis, this project aims to help Company Z to develop a plan to improve its CRM.

The growing economy has brought tremendous growth potential to China's consumption market, and with the emergence of more and more Chinese cosmetic brands, costumers are embracing and choosing domestic skincare products. Company Z, a young Chinese cosmetic brand, is recognized by the market and is in the process of continuous growth, but there is clearly an opportunity to improve its CRM due to the shortcomings in its current CRM, and for the company to achieve greater growth.

This thesis begins with a literature review of six topics: Concept of CRM, Objectives of CRM, Types of CRM, Models of CRM, Customer Loyalty and Consumer Behavior, from which we find a suitable research methodology for this project, and then conducts internal and external analysis, including the analysis of Chinese cosmetic market, the analysis of competitors, Porter's five forces analysis, SWOT analysis, and so on.

In analyzing the customer relationship of Company Z, it was used the consumption data collected from Company Z's store, which is derived from real consumption behaviors and contains a large amount of information. Through the data analysis methods of Decision Tree and Associative Relationships, some important conclusions are drawn from the data, in which the most critical is to establishe a preliminary profile of Company Z's customers, which is classified into the three categories: Type A, Type B and Type C.

Based on all the analysis, relying on the IDIC theory, this thesis provides some practical proposals for Company Z, including several aspects: Accurate identification of customers, Provide differentiated services and products, Effective customer interaction and conversation, Customization and personalization.

By implementing these actions, it is intended that Company may achieve the following objectives: 20% sales growth in 2024 compared to 2023, 50% increase in new APP registrations, increased customer loyalty, and 20% increase in costumer repurchase rate.

Finally, the activities of the CRM plan are set up, along with their budgets and implementation schedules, including 15 actions with a total budget of 4.2 million RMB, and a list of five assurances needed in order to complete the plan, and the way in which the results of the plan will be assessed.

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