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The Value-Based Customer Relationship Management

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Abstract

The established customer relationship management (CRM) programs failed to support the customers. The CRM projects were concentrated chiefly around the tool implementation and technology without considering the real business needs and wants. These CRM solutions failed to supply the marketing, sales, and services support to the company's target audience, the customers. A conduct a review of of surviving research studies about the CRM strategies and the theoretical framework is necessary to comprehend the role of CRM in the overall firm's business strategy and find the root-cause of many CRM's vows. Thus, a new approach is necessary to take into account the business imperative and the firm's customer needs and desires. This paper inspects the approach called “value-based CRM” which its conceptual framework is explained to help a company to position itself to link the CRM strategy to the corporate business goals. In that process, a high level road map is presented to deploy a value-base CRM across the enterprise taking into account the critical success factors and the utilization of metrics to carry out an evaluation of its efficiency.

Introduction

With the downfall of many Customer Relationship Management (CRM) projects and the negative return on investment, one could wonder if the CRM will be yet another silver bullet technological hype promising to produce a seamless one to one relationship between a company and its customers. The companies are facing fierce competition in a global marketplace. The customers have higher expectations, less allegiance, and would like to pay less to firms which supply the products and services. Thus, it is vital to have an effective CRM solution to outlive and stay in business.

This paper reviews the marketing management research literatures regarding the CRM theoretical concepts and framework. It seems that there are many unanswered questions and issues in this field. For example, it is challenging to find an agreed-upon definition of CRM by the marketing management scholars. But for the purpose of this paper, a working definition of CRM is established also a brief overview of the development of CRM. This should help to place this paper into perspective and discern the root causes of many CRM failures in the past. For example, many firms still consider the CRM as a tactical initiative to manage customer interactions.

This paper claims that it is time to approach CRM strategically using a holistic marketing approach obtaining the business goals of an enterprise by serving the customers and creating values for shareholders, employees, and the community. In that regard, this paper sets the stage to formulate a value-based CRM framework. Various components of this framework will be defined and described to show their interrelation and their impact to a firm's business objectives.

Customer Relationship Management: An Overview

Definition of CRM

The idea of CRM can be tracked back to early 1960s when Levitt (1960) advocated that the corporations had to pay more attention to the necessities of their customers instead of just selling commodities and services. Nine years later Levitt (1969) suggested the idea of “the augmented product”. He asserts that one should take into account the individuals purchasing experience as an extension to the product itself.

With the idea of buying experience and exchange, Bagozzi (1974) added that the fundamental economic idea of exchange between the customers and the producers occurs when both notice that they profited from it. But, Berry (1983) urged that the focus ought to be on the relationship itself between the producers and the consumers. Peppers and Rogers (1993) get this idea of relationship into a much granular level and suggested the idea of “one-to-one” marketing. In the same period, Pine (1993) suggested the concept of “mass customization”. So, the concept of CRM can be regarded as “the outcome of the continuing evolution and integration of marketing ideas and newly available data, technologies, and organizational forms”. (Boulding, Staelin, Ehret, & Johnston, 2005, p.156)

The definition of CRM will change and reflects the state of the marketing thoughts and ideas at a particular time. For this paper, the following working definition of CRM is used:

“CRM is a strategic approach that is concerned with creating improved shareholder value through the development of appropriate relationships with key customers and customer segments. CRM unites the potential of relationship marketing strategies and IT to create profitable, long-term relationships with customers and other key stakeholders. CRM provides enhanced opportunities to

use data and information to both understand customers and cocreate value with them. This requires a cross-functional integration of processes, people, operations, and marketing capabilities that is enabled through information, technology, and applications". (Payne & Frow 2005, p. 168).

The Evolution of CRM

Ling & Yen (2001) showed a summary view of the evolution of CRM linked to the general marketing management theories and practices (See Table 1).

Since the beginning of time, sales activities involved the direct interaction between the seller and the buyer. The seller developed a very personal knowledge about the buyer's needs, habits, styles, and products' preferences. This one-on-one approach created customer loyalty and repeated business. It means that the seller has to invest a great deal of time and effort to cater to the needs of the customers. This personal touch business model could only serve a limited number of customers and it was impossible to scale it up to handle a large volume of customers' transactions.

In 1960s, the mass marketing campaign was introduced to respond to the large-scale production; disperse markets, and enormous number of customers. The drawback of this area was the lack of personal touch and intimate knowledge of customers' needs. Thus, it created the impersonal product offerings and as a result this model encouraged a lower customer loyalty.

By the mid-1980s, it was the time of the emergence of market targeting. Best (2000) identified seven steps to deploy target marketing: 1) Segment consumers based on similar needs and benefits. 2) Within each segment find out their demographics, lifestyles, and usage habits. 3) Determine the attractiveness of each segment based on market potential and existing competition. 4) Evaluate segment profitability. 5) Offer a "value proposition" and pricing

strategy based on consumer needs and profile. 6) Conduct marketing test to validate the strategy. 7) Expand the marketing mix by using the four P's: product, price, promotion, and place.

Target marketing in mid-1980s used mainly customer databases to target and to communicate with customers via mail or telephone. The main metric to measure the effectiveness of the target marketing campaign was the response rate. The market share was considered to be the main metric to judge the success or failure of a firm's strategy. Although the customers' interactions became more engaged, it remained superficial.

In 1990s, the CRM concept was introduced. The goal was to develop an intimacy with customers and recognized the life time value of a customer. This area is marked by sustaining of mass production and distribution systems; recognizing both customer knowledge and personal interaction could yield customer trust and loyalty. The measure of success is based on the share of customer. These were many difficulties to implement CRM since most of efforts were concentrated around the front office functions and disconnected from the back office activities and processes.

With the acceleration of technological innovation and globalization, it is time for new era called value-based CRM, which is defined as a set of customer-focused strategies linked to the overall firm business goals. A 360 degree view of customers is required to understand individuals' needs and wants in order to customize the best forms of segmentation using e-Commerce and Internet providing one-to-one intimate service. The measure of success should take into account the employees' value, the customers' value, the shareholders' value and the reduction of costs. This is a paradigm shift from a CRM tactical view to a strategic top down holistic view of marketing management.

The CRM Crisis

Despite the tremendous progress of CRM in recent years, Srinivasan & Moorman (2005) reported that the majority of CRM projects were failing and do not provide a return on investment (ROI). Previously, Gartner Group (2003) estimated that 70% of CRM projects either resulted in losses or no bottom-line improvement in the company's balance sheet! There are huge gaps between the CRM theories and CRM practices. Most of the CRM initiatives are pushed into the corporation by CRM tools vendors with the help of its Information Technology department. Their approach is solely oriented toward the technology solution and do not take into account the people, the processes, the supply-chain, the customers, and the regulatory agencies.

In an attempt to understand these gaps, Srinivasan & Moorman (2005) conducted empirical studies and concluded that companies with moderate "bricks-and-mortar" experience knew better how to take advantage of CRM compared to the companies with either low or high "brick-and-mortar" experience. The same pattern repeated itself with companies with moderate online experience. They agreed that a company has to use the CRM in a strategic context.

Defining a value-based Customer Relationship Management

Business Drivers

The company's management team is faced with many business challenges. The following are the summary of some these issues: 1) the products and services offering are complex, 2) there are increased competitions not only within the national boarder, but globally, 3) the business cycle is reduced in consumer markets and the time to introduce new products and services are reduced, 4) niche competitors are providing discounted prices for similar goods, 5) the access to

customer information is difficult, 6) at the end of day, the measure of success is judged by the generated profits and the firm's performance in marketplace.

The customer management and the acquisition of new customers are important for the long term growth of a company; it is far easier and cost effective to sell to the existing customers compared to prospecting new ones. But, finding the customers' information is difficult in an enterprise since this information is scattered in stovepipes fashion in many departments and the task of integrating information requires time and substantial investment in Data Management solutions and an enterprise wide data warehouse. From a management perspective, it is essential to identify satisfied and unsatisfied customers. But the question remains how a company could effectively identify customer's touch points in order to adjust the service offering to meet and exceed the customer's expectation.

Another important business driver is the customer retention and the understanding of customer channel preferences. A firm has limited resources and must use it effectively by not wasting the marketing budget on consumers who don't buy products or services. Thus, the main focus ought to be on the long term value generation and not on the single atomic transaction between the consumers and the firm.

In response to these business drivers, it is essential to examine a framework for value-based CRM.

Framework for Value-based CRM

Payne and Frow (2005) are proposing a strategic framework for value-based CRM (see figure 1). They approach the CRM concept from a holistic business environment view point. This framework comprises of "five generic processes: (1) the strategy development process, (2) the value creation process, (3) the multi-channel integration process, (4) the information

management process, and (5) the performance assessment process” (Payne & Frow, 2005, p.170).

Strategy Development Process

The strategy development process has two components: the business strategy and the customer strategy. The first step in a strategy development process is to define the vision, the mission, the goals, and the objectives (VMGO) of the firm. Once the VMGO is defined, one can formulate a customer strategy as a subset of this over arching business strategy supporting and enhancing the firm’s VMGO. The business strategy definition is the responsibility of the Chief Executive Officer (CEO) and the board of directors. In general, they are responsible for daily operations and financial performance of the firm providing leadership and developing organizational structure to facilitate the execution of firm’s goals. In particular, they could determine the role of CRM in support of the business strategy. In the other hand, the marketing department should be responsible for the firm’s customer strategy which defines the customer base, identifies the marketing mix and specifies the market segmentation grain.

Value Creation Process

Payne & Frow (2005) described the value creation process as a transformation mechanism which deploys the business and customer strategies into motion at the tactical level. This process contains three components: 1) the value which the customers are receiving from the company, 2) the value which the company is receiving from the customers, 3) the management of interactions between the processes around the cocreation of products and the market segmentation.

Multi-channel Integration Process

The multi-channel integration process enables the delivery of value proposition to the customers via adequate physical or virtual channels. This is the organization interface with the external world translating the ultimate goal of the firm's business strategy and its customer strategy into the reality. There are various marketing channels available such as sales forces, outlets, telephony, direct marketing, electronic commerce, and mobile commerce. The proper use of each channel depends on many factors: 1) the overall firm's marketing strategy, 2) the number of existing and potential customers, 3) the geographical presence, 4) the share of customers, 5) the nature of business operations, 6) macro economic factors.

Although, there are a number of marketing channels available to the customers, therefore it is important to have a unified view of a customer. So, a customer is empowered to have a seamless service encounter experience from one transaction to the next. This process should be able to recall the context of previous transaction and start where things stopped previously regardless where the transaction occurred across the firm.

Integrated channel management

In order to coordinate activities among various marketing channel and provide consistent customer experience, the integrated channel management process is necessary to establish the operational and organizational standards.

Performance Assessment Process

The performance assessment process covers the shareholders results and the ongoing monitoring of the execution of CRM operations and value delivery across the organization. This process contains two components: the shareholder results and the performance monitoring.

Shareholder results

There are many stakeholders impacted by the business activities of a corporation. Indeed, the beneficiaries of a corporation's profits and dividends are the shareholders, but it takes the effort of all employees and the patronage and loyalty of customers to achieve financial success. Therefore, the aim of the value-based CRM is to reconcile different interests among stakeholders and provide an effective way to achieve everybody's goals and a process to measure the results.

Performance monitoring

Kim, Suh, & Hwang (2003) proposed four categories of measurements for CRM performance monitoring. These are the customer knowledge, the customer interaction, the customer value, and the customer satisfaction.

The customer knowledge metrics is defined as the customer acquisitions and the number of customers. For example, in web marketing, the metrics are the number of page viewed per day, the number of visits per day, and the net sales per employee.

The customer interaction metrics are the number of marketing campaign, the total cost of promotion, the number of response per channel, the response time to customer query, and detailed product information.

The customer value measures are the number of retained customers, the net sales, the amount of ordinary sales, the amount of asset per employee, the amount of profit per employee. In term of channel interaction, the measures are qualitative and deal with the usability and attractiveness of these interfaces.

The customer satisfaction metrics can be divided in two folds. The first fold is concerned with the continual service improvement which uses the following metrics: the brand image, the service level, the number of customer inquiries and over all customer satisfaction. The second

fold is dealing with instituting relationships with customers. The following metrics can be used to monitor these relationships: assurance, reliability, empathy, responsiveness, and tangibles.

Information Management Process

The information management includes the Information technology systems helping knowledge workers (executives, managers, business analysts) make faster and better decisions: What were the sales volumes by region and by product category in the last quarter? What is the customer satisfaction trend for last three years? Will a particular marketing effort result in an increase sales volume?

In order to answer these types of question, each single piece of information about the corporation's products, services, and customers have to be stored in the data repository. Therefore, the challenge is to have integrated information management architecture providing a single version of truth. A corporation uses many Information systems in support of their daily business operations such as financial planning, accounting, engineering, manufacturing, supply-chain, resource management, human resources, marketing, legal, sales, ordering, and after sale services. Most of these applications are built vertically to support specific business transactions within each domain of activity. But, the information must be viewed and shared horizontally across multiples business domains. Thus, an integrated data repository is necessary to achieve a horizontal integration among different business domains.

Critical Success factors

So far, a conceptual framework of a value-base CRM is examined. But, there are other important factors which Wilson, Daniel & McDonald (2002) have proposed in order to deploy a CRM solution. These are:

1) They argued that it is not enough to get executive level support for CRM. One needs to engage all departments dealing with customers on daily basis and have a holistic approach by having a single view of the customer.

2) In term of organizational structure, they proposed to have the sales and marketing departments under one leadership using cross-functional teams including the supply management, the operations, and the demand management.

3) A multi year projects are often destined to fail, hence, they suggested having an incremental and phased approach to the deployment of the CRM initiatives. The figure 2 shows an example of CRM road map (Anderson & Merriman, 2003, p.9) where the first initiative starts and finishes within six month, while the second initiative could start half way through the first initiative in parallel.

4) There is always a cultural gap between business people and IT department. They speak different language and seems business requirements are lost in translation when it reaches the IT department! Thus, an effective communication strategy is vital to make sure that everyone is on the same page. It is a best practice to pair the IT development team with the business subject matter experts (SMEs) to work and collocate to review the system design and solutions early on and avoid missed communications and delivering an IT solution disconnected with the CRM business processes.

Value-based CRM effectiveness

Once a particular set of CRM functions have been implemented and the marketing tactic is being executed, one has to use metrics to evaluate value-based CRM effectiveness. In that regard, Kim, Suh & Hwang (2003) have proposed a model using balanced scored card (BSC) based on four customer perspectives, i.e., value, satisfaction, interaction, and knowledge.

Payne and Fow (2005) emphasize that one major element in any CRM System is the measurement process. Firm obtains measures such as customer lifetime value and acquisition and retention costs. Gain deeper insights into how these intermediate process measure links to downstream firm performance (Payne & Fow, 2005, p. 158). The effectiveness of CRM activities depends of how CRM is integrated with the firm's existing processes and preexisting capabilities. Firm performance is improved when the firm acted strategically in term of using customer information to create firm value. The successful implementation of CRM requires that firms carefully consider issues of consumer trust and privacy.

Discussion

We reviewed the evolution of value-based customer relationship and its critical role in value creation and delivery of a firm's products and services to its customers. The majority of companies focused their CRM efforts around the technology and the problem solving at the micro or tactical level and they forgot that the main reason to engage in a CRM initiative has to do with the business strategy. They neglected to look at their customer as individuals who are sophisticated and informed. These customers are demanding to be treated based on their individual's needs and wants.

The technology could help to customize users' experience via multiple marketing channels. But, this is can not be achieved using the old paradigm and entrenched culture in an enterprise where each function is focusing around a particular set of business issues without thinking about the ultimate goal which is the "customer share" instead of "market share".

Paynes & Frow (2005) provided us with a theoretical framework to paint a systematic view of value-added CRM with its major processes, functions, and components. There are pockets of scholarly research in many of these processes, but there are many gaps that have to be

filled with the future studies. There is still confusion in marketing community about the CRM role and the CRM software vendors are pushing relentlessly their magic solution without taking into account the internal business processes and the people.

It is time that companies start to take control of this vital function and define it using a value-added CRM approach or risk to lose their competitive edge, their sales, their reputation and worst of all their customers.

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Table 1 – The Comparison of Marketing Strategies (Ling & Yen, 2001, p. 83)

Evolution	Time Period	Features	Drawbacks
Direct Sales	Since long ago	Small store: intimate, one-on-one service; personal relationship is key; provided intimacy and knowledge about customer and developed customer loyalty and trust.	Cost inefficient; small scale of business
Mass Marketing	1960s	Centralized large-scale production, wide-geographic distribution, and one-way communication on a grand scale; cost efficiency; promoted by mass media; brand recognition; measure of success, market share.	Customers do not have the sense of connection; low customer loyalty.
Target Marketing	Mid-1980s	Use IT to target specific customer by mail or telephone; communicate directly with targeted customer; potentially receiving a direct response from a customer; response rate became the central metric.	Market share remained the primary measure of success; customer interaction at a superficial level, not far enough.
Customer Relationship Marketing	1990s	Develops an intimacy with customers using IT and maintaining mass production and distribution systems; recognized both customer	Difficult to implement; involves various business functions; mainly for

		<p>knowledge and personal interaction yield customer trust and loyalty; measure of success: share of customer.</p>	<p>consumers instead of industrial customers.</p>
<p>Value-added CRM</p>	<p>2000s</p>	<p>Defines a set of customer-focused strategies linked to overall firm business goals. 360 degree view of customers and customize the best forms of segmentation using e-commerce and Internet to provide one-to-one intimate service.</p> <p>Measure of success: employee value, customer value, and shareholder value, reduction of costs.</p>	<p>Required a paradigm shift from a CRM tactical view to a strategic top down holistic view of marketing management.</p>

Figure Captions

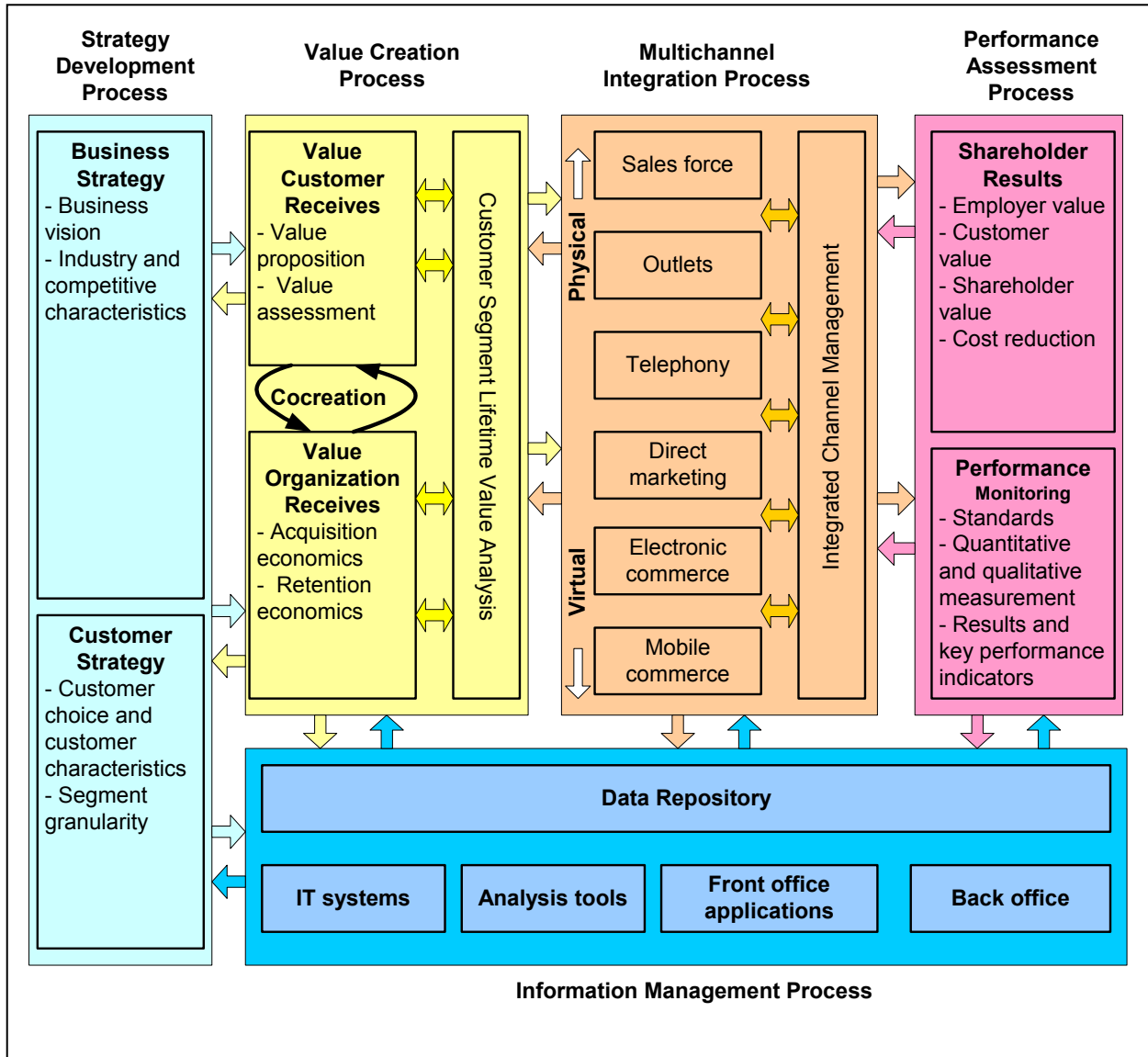


Figure 1. A Conceptual Framework for CRM Strategy. (Payne & Frow, 2005, p, 171)

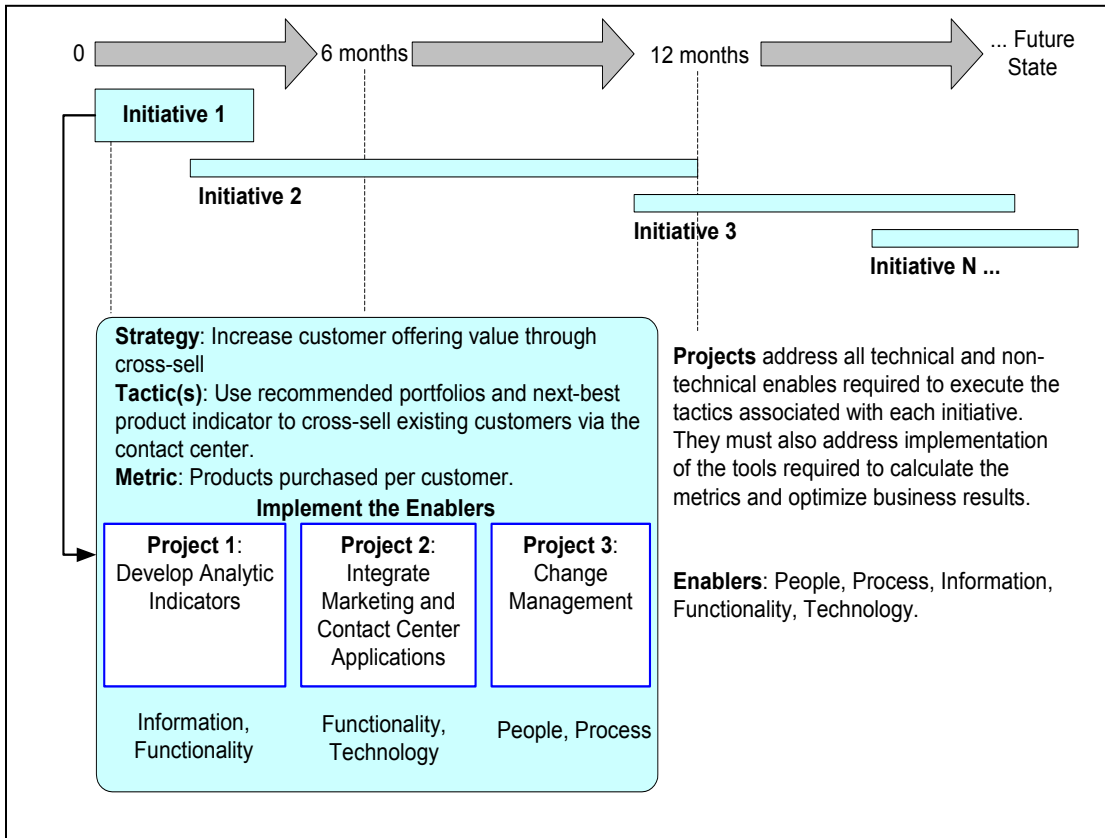


Figure 2. The CRM Road Map (Anderson & Merriman, 2003, p.9).