

“A Strategic Approach for Successful CRM: A European Perspective”

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A Strategic Approach for Successful CRM: A European Perspective

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Abstract

This paper presents a strategic approach to CRM as it is evolving within the European context. While there are many similarities to the North American experience, a new framework is presented giving managers a roadmap for integrating CRM into their own corporate philosophy. The framework is represented by a diamond in which four core CRM activities are positioned within the vision defining the stance the organization takes with regard to CRM, and the basic technical/cultural context of the organization. A three-stage project approach to implementation is presented that identifies the activities and timelines required for the successful implementation of CRM initiatives.

Key words: CRM, CRM Strategy, implementation guidelines, framework, European perspective.

Background

Customer relationship management (CRM) is not new as a customer-focused orientation or marketing orientation and it has evolved from a historical emphasis that had focused primarily on either sales or production. Kotler, for example, traces this familiar historical development [8]. From a marketing perspective, CRM has its antecedents in both the marketing orientation and the service quality initiatives that became the center of attention in 80's with the work of, for example, Parasuraman, Zeithamel and Barry [12, 22]. This stream of literature has become both extensive and well known to marketers interested in both consumer and business markets. The service quality initiatives extended the marketing focus by augmenting a core product with a range of intangible features such as reliability or responsiveness to differentiate it from a growing number of substitutes. In the business-to-business context, both academics and practitioners have recognized the importance of buyer-seller relationships for a long time. This large body of research is exemplified by Webster, Jackson, Anderson and Narus, Morgan and Hunt, Webster, Cannon and Perreault, Bensaou, Day, Reichheld, Yu, and Rigby, Reichheld & Scheffer [19, 7, 1, 11, 20, 3, 2, 5, 15, 21]. While CRM has a clear marketing focus, it has expanded to become a cross-functional process that attempts to integrate marketing activity with enterprise resource planning, a wide variety of technology solutions and supply chain management functions. Formal definitions reflecting these activities can be found in several current textbooks, e.g., Hutt & Speh and Urban [6, 18]. Although CRM is rapidly developing in North America, a European perspective provides insights that can assist managers in applying CRM strategies to their domestic and foreign marketing efforts.

From a European perspective, two important changes have occurred that demonstrate the need for Customer Relationship Management (CRM). The first change is in the nature of the business environment, and second is a change in terms of embracing a strategic orientation.

Within the business environment, three phenomena are observed:

1. Changed behavior of customers: It is becoming more and more difficult for companies to operate as they face "Marketing Fatigue" of potential customers. The growing variety of marketing and communication messages to customers leads to a continuously shrinking effect of the traditional instruments in the marketing toolbox and an increase in variety seeking.
2. Increasing complexity of the markets: Growing globalization is leading to new competitors with completely new goods, service and cost structures. Pauls states that market barriers between industries have become more permeable and companies use

this to enter completely new markets (e.g. the change from pure gas stations to gas stations with real convenience stores and fast food restaurants in Europe) [13].

3. Broad acceptance of the value management concept: Increasing shareholder value is now visible in Europe as well as in North America. The globalization of the financial markets determines the pace of international competition for money. The increasing influence of the institutional investors and private investors with higher expectations and growing expertise lead to a stronger shareholder value orientation of all business activities.

Value added exchange is a growing mode of competition, and represents a myriad of transactions between “sharp in – sharp out” transactions (e.g., purchasing a newspaper) and highly integrated collaborative exchanges (e.g., BMW and a break manufacturer co-designing a break system for a new car model). In value added exchanges, the emphasis of the selling firm is on retention through exceptional performance in terms of quality, delivery, and value for cost rather than acquisition. These types of transactions call for a different relationship between buyer and seller. The concept of Customer Relationship Management (CRM) is evolving from the need for different forms of buyer-seller relationships. Marcus reports on the findings of a Gartner Group survey of CRM managers in which CRM’s ability to enhance customer value is ranked “important” or “very important” by 96% of the respondents [9]. As a result, it is not really astonishing that most companies are involved in some kind of CRM projects. For many, the main focus lies in the implementation of software solutions to support marketing, sales and service activities; but there is also a big market for CRM applications. The Gartner group estimated the worldwide market for CRM technology growing to \$47 billion by 2006. Meta Group sees the European market itself as more than €3 billion in 2004 [10].

The second important change concerns the evolution toward a strategic orientation.

After the initial euphoria, there is disillusionment in the CRM field. Rigby indicates that the satisfaction of managers with CRM found itself in one of the last 3 positions in 2000; but by 2002 it had significantly increased indicating a greater strategic orientation in the perception of CRM [16]. Despite this, many CRM projects will fail, and the reasons are not necessarily related to technical issues. The three major reasons identified for the failure of CRM-projects in the European experience are:

1. No, or only vague objective targets: Lack of targeting has resulted in missing the opportunity to measure and control. While implementation of CRM software is the main focus of most CRM projects, quantification or definition of measurement categories rarely happens. The European experience indicates that the failure to establish clear goals before launching CRM projects is the most common and important source of problems.
2. Too narrow or too technical project focus: As a result of focusing on the implementation of CRM software most of the CRM projects are under the pure responsibility of the company’s CIO. Other departments only participate by giving professional demands. New customer oriented alignments of the corporate strategy, as well as an adaptation of the organizational structures and processes, remain undone.
3. Lack of implementation and missing commitment of top management: Often in CRM projects the problems of implementation are underestimated. In spite of communication, there is often a missing commitment to the projects by the top management, yet this commitment is one of the critical success factors for successful implementations. Consequently, for the successful realization of CRM projects, an integrated *strategic* approach is required.

CRM: A Strategic Approach

Strategic CRM should be understood as an operational part of shareholder value management for the fields of marketing, sales and service. An increase in the value of the customer base implies an increase in the value of the entire company. Therefore, in a strategic CRM concept, strategy, technology, processes and employees have to be linked to an integrated approach that rests on an existing customer oriented strategy in which the right customers are acquired and

their needs understood. From this point of view CRM focuses on three main effects: higher customer loyalty, more targeted customer control and better customer information.

To organize the elements of a successful CRM strategy, the Diamond framework is presented in Figure 1.

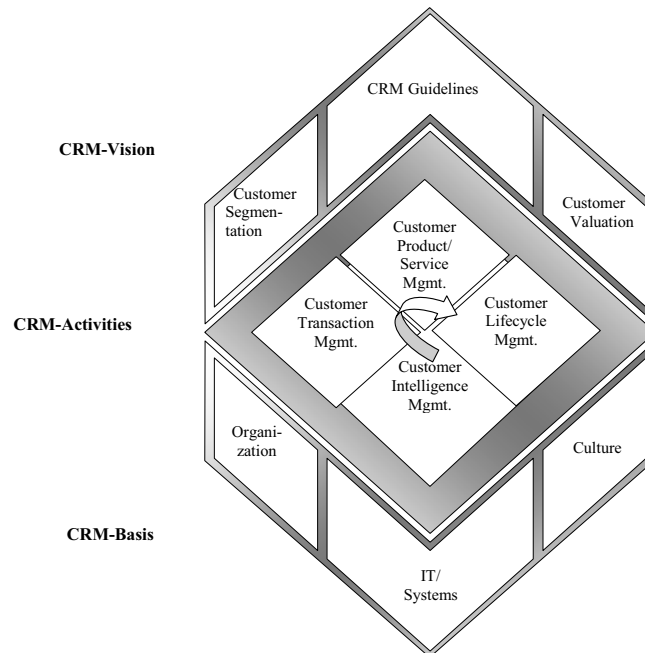


Fig. 1. CRM-Diamond

CRM Vision:

The CRM Vision defines the basic understanding of CRM. Therefore, in addition to the integration of the CRM strategy into the corporate strategy, CRM guidelines, customer valuation and customer segmentation also have to be kept in focus.

CRM-Guidelines:

These guidelines should define the basic understanding of the company's CRM initiative. This understanding includes the importance of long-term customer relationships and customer satisfaction, as well as the role of CRM within the corporate strategy. The CRM guidelines can be defined with the help of the following:

Profitability: CRM is an approach to increasing customer profitability. As a customer oriented management approach, this also means that specific tools are necessary to analyze and manage the customer base in real time.

Differentiation: CRM differentiates between the treatments of different, valuable customer groups. As a result, specific programs for customer valuation are necessary. *Customization:* CRM attempts to customize the products and services offered to the customer as well as the relationship between the customer and the company. As a result, specific programs are needed for customized delivery of goods and services. Customization rests on crafting the right value proposition for each customer or customer group. To do this, the firm will have to have the ability to capture and evaluate the relevant data from customer transactions.

Systematization: The new approach is the systematic analysis of data and implementation of programs designed to create long-term profitable customer relationships. *Integration:* The benefit of CRM comes from the integration of new and existing data and real-time analysis into a coherent marketing plan to satisfy and retain customers.

Customer Valuation: Customers should be rated in terms of their value to the company. Traditional concepts like current revenue are not enough, rather there has to be a pragmatic valuation model based on the customers lifetime value (CLV) that integrates customer specific costs and other relevant factors like potential sales, or communicating positive word-of-mouth. In contrast to the “all customers are king” approach of the past TQM era, in CRM the approach is “Our most valuable and profitable customers are king!” This implies strictly differentiated treatment based on the needs of different customer groups (given the organization’s capacity to serve those needs), and should result in higher profitability from the entire customer base.

Customer Segmentation: CRM also requires verification of the actual customer segments. A benefit or preference oriented market segmentation approach should be preferred over pure, socio-demographic segmentation. In addition to this benefit-oriented perspective, the segmentation strategy should be expanded by an internal orientation (i.e., what the company can deliver) based on customer value. This helps the company to differentiate communication and services among the different customer segments.

CRM Activities:

Based on the CRM Vision, an amalgamation of four CRM activity cycles can be done. Starting from a better understanding of the customers’ needs based on better information (Customer Intelligence Management), customer orientation can be implemented through different sales channels (Customer Transaction Management) as well as in the product and service program (Customer Product/Service Management) as a basis for systematic development of long-term customer relationships (Customer Lifecycle Management).

Customer Intelligence Management: This module contains the management of all customer information and is the basis for customer management in general. This means an analysis of existing data and its availability throughout the company in a systematic way. As a result, Data Warehousing and Data Mining become important. For example, an American non-profit-organization found out that the success rate of their direct-mail funding activities is very high with families in a specific income range, driving a specific car brand and living in the suburbs of big cities. With this knowledge, future marketing communications can be much more focused, leading to higher hit-rates and higher donations with less marketing expenses. Besides the usage of existing information, the company should try to continuously generate new customer insights. Customer Insight Management tries to learn as much as possible about the customer and to understand better customers’ behavior and needs and exploit this knowledge to the company’s benefit in future activities.

Customer Transaction Management: This module focuses on the direct interaction between the company and the customer during each sales transaction. Issues that need analysis are: Integrated Customer Touch Point Management: Here, the company should scan all activities to identify all contact points between customers and the company. Once these are identified, the company should work on continuous customer-oriented improvements (Customer-oriented Process Modeling). Additionally, there should be a coordinated integration of the customer “touch points” (Multi-channel Management). The main goal must be to spread the concept of “One-Face-To-The-Customer” over all communication channels. A starting point is often a traditional call-center, which could be expanded to a broad customer-interaction-center (CIC). Complaint Management: CRM complaint management is an essential element of Customer Interaction Management. Retention is jeopardized by service failures, but the way in which a firm recovers from service failures will determine whether or not customers can be retained. While integrated Customer Touch Point Management focuses on the smooth conduct of customer contact in standard situations, complaint management has to deal with failures in a professional way. Whether this is done by employees on the spot or by an analysis of data after the fact, complaint management helps to promote a long-term relationship. From the company perspective, systematic complaint management is a direct feedback tool and the basis of continuous improvement for the entire value chain.

Customer Product/Service Management: The third activity module covers the customer oriented design and the continuous improvement of the company’s product and service program. There are two important issues from the CRM perspective: Customer Benefit-Oriented

Product/Service Design: With broader and better information about the customer base and a closer relationship with the customer, CRM provides better opportunities to improve the product and service by processing transactions faster, providing better information to customer contact personnel and managing the supply chain more efficiently.

Mass Customization: Mass Customization focuses on the systematic use of customization of the company's goods and services to meet customers' specific needs. Keeping the specific situation of the company in mind, the entire value chain has to be analyzed in a systematic way to identify and implement the customization potential. In most companies there are opportunities to leverage the ability to mass customize, but many firms have not yet taken advantage of their capabilities. Fig. 2 illustrates a framework developed by Piller presenting a German perspective [14]. While opportunities for mass customization exist, it is not a panacea and the concept has limits that need to be recognized. Zipkin has outlined the limits of mass customization [23]. He maintains that in order for mass customization to be a viable strategy for attracting and retaining customers, the company must have the following operational capabilities: a mechanism for getting "custom" information, process flexibility for producing the customized product and the ability to deliver the right product to the right customer.

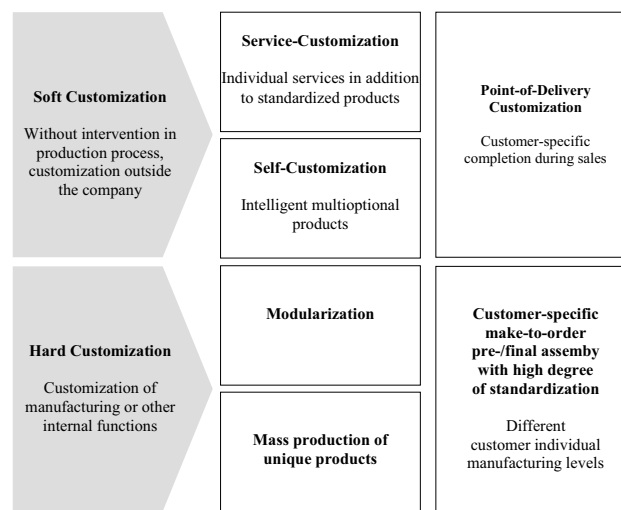


Fig. 2. Framework for Mass Customization

CRM is a means for accomplishing the first capability, but process flexibility is not a widely held capability so care must be taken to be able to make good on the promise. The third capability is not trivial. Distribution is hard to get right and there are examples of firms claiming on time delivery (e.g., during the Christmas season) and then disappointing customers due to logistics problems.

The fundamental question regarding mass customization is: Who wants it? If you can't answer the question, investing in mass customization is probably not going to achieve the desired effect.

Customer Lifecycle Management: While Customer Interaction Management focuses on single customer transactions, Customer Lifecycle Management tries to build up, sustain and expand on long-term customer relationships. An example of Customer Lifecycle Management is presented in Fig. 3 and was developed by Curry and

Curry who introduce the concept of the Customer Pyramid based on a successful design of repeated customer transactions or interactions [4]. The one-way communication from company to customer has to be changed to a two-way dialogue with the customer to strengthen the relationship and give the company important information about customers and customer segments. Based on the customer situation and the position in the customer lifecycle, the following programs for customer recruitment, retention and recovery can be identified. Customer Recruitment: Target

markets have potential sales prospects that should be acquired as new customers. CRM supports selecting and addressing new target groups by information generated out of the existing customer base by the Customer Intelligence Management activity. Communication programs can be designed to make prospects aware of the benefits enjoyed by people like themselves. Awareness should lead to desire, and desire should lead to trial and satisfaction.

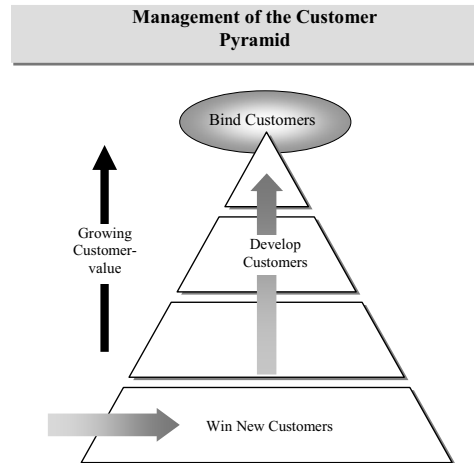


Fig. 3. Customer Pyramid

Customer Retention – Loyalty Programs: Customer Retention focuses on existing customers to increase the “share of wallet” and is usually achieved via reward programs. Because of their impact on profitability it’s very important to calculate their effects during the planning phase. Once implemented, it is very hard to reduce the privileges and benefits for the customers so that it is nearly impossible to heal mistakes in the planning phase without negative effects. The European experience shows that their effects in sales are mostly overestimated during planning. It should be recognized as well that loyalty programs are two-edged swords. On the one hand, repeat behavior is rewarded, but on the other hand, customers begin to expect greater incentives to remain loyal and begin to switch from seller to seller in search of the best deals. The result is that programs designed to retain customers actually provide the incentive to switch. **Customer Recovery:** These programs focus on a systematic recovery of lost yet desired customers. This is very important where the recruitment of customers has high acquisition costs. There are many examples from the business-to-business context in which a first-time supplier struggles to get an order from a large firm, gets the order, and then fails to deliver on time. Successful recovery from a service failure of this type by, e.g., making specific investments such as dedicating a portion of production to the customer, can either keep the customer from defecting or create an incentive to give the supplier a second chance. In other cases involving defection, the recovery activities can be call-center callbacks to follow up on the reasons for defection and to make former customers aware of the benefits of becoming a customer again. The emphasis is on recovering the right customers since the CRM philosophy implies that the buyer and seller maximize joint value.

CRM Basis: The Path to Successful Implementation:

There are three different requirements to implement the four elements of the CRM activities successfully. These are the organizational structure, IT Systems/Database management and a customer-oriented corporate culture.

Organizational Structure: The potential of the strategic CRM approach is not founded on the several stand-alone departmental functions that are commonly found in many companies. It is the broad and integrated approach that leverages the power of CRM. Clearly, a relevant organizational structure is necessary, and there are different options depending on different situations and market conditions: CRM Project Organization: CRM can be introduced as a project in an ex-

isting organizational structure. Because of its overlapping function the project can be under the responsibility of the general management or a task force. The CRM project manager coordinates the CRM strategy for all involved functions. CRM Department: CRM can also be fully integrated into the organizational structure of the company. Different options are possible. It can be designed and established as a purely conceptual and coordinating function, or it can be designed as a separate CRM department focusing explicitly on customer segments. IBM, for example, uses a role-based strategy to serve customers. The role IBM assumes is dependent on the customer's needs. IBM can play the role of the project owner in a CRM project organization or a problem re-solver in a CRM department context. The role played matches IBM's strategic goals and the results are measured by appropriate metrics to insure customer satisfaction.

Customer Intelligence Management is underdeveloped in most companies or does not exist at all. The systematic processing and analysis of customer data need a comprehensive understanding of IT, especially the handling of databases as well as profound methodological knowledge in statistics and analytical tools.

IT Systems/Database Management: The technological base of CRM is built upon customer databases and CRM software tools. While customer databases should offer a consistent, up-to-date and standardized company-wide database, CRM software tools support the four CRM activity modules. Normally one can choose between analytical, communicative and operational CRM-software tools: Analytical CRM software: These software packages support the processing and analysis of customer data within the scope of Data Warehousing and Data Mining.

Data Mining is based on software solutions for analytical statistics, pattern recognition and artificial intelligence. This supports customer and program analysis, simulations of markets and customer behavior as well as forecasting. Communicative CRM software: These types of systems support customer interaction. Call-Center and Customer-Interaction-Center solutions make sure that for any customer contact all customer information, such as past correspondence, sales history, and status is up-to-date and readily available. This helps to implement a virtual "One-face-to-the-customer" over all interaction channels. Operational CRM software: Operational CRM contains software packages for marketing, sales and service automation. Marketing Automation supports the Customer Lifecycle and Customer Interaction Management by designing integrated and coordinated customer contacts. Campaign management supports the planning, implementation and control of coordinated personalized campaigns for selected customer groups over different communication channels. In the field of Sales and Service Automation software tools help to simplify routine jobs, like time scheduling, expense reports, visit reports, support for proposal management, target planning or budgeting as well as customer data administration and analysis.

As mentioned earlier, many companies implemented CRM software solutions without having a real CRM strategy. As a result, expensive and complex systems with broad functionality are implemented, but with disappointing results. Therefore, the selection of IT systems should start only after the development of a CRM strategy that defines the requirements and includes an explicit calculation of the amortization of the CRM software.

Customer Oriented Corporate Culture: Organizational culture is very important for a successful implementation of CRM. The changes in the organizational culture need to be communicated in a way that makes sure that all employees know and accept the concepts of customer value and the importance of customer relationships. Employee incentive systems and investments in training are the means to this goal.

The Project Approach to Implementation: In addition to the basic strategic focus of the CRM project the approach to its implementation is the most critical issue for its success. The most relevant of these issues are:

The project should have three stages (Fig. 4). First, management prepares for the design of the CRM concept with an audit of the current situation, the articulation of a CRM vision and an explicit identification of the segments to be served along with the value provided.

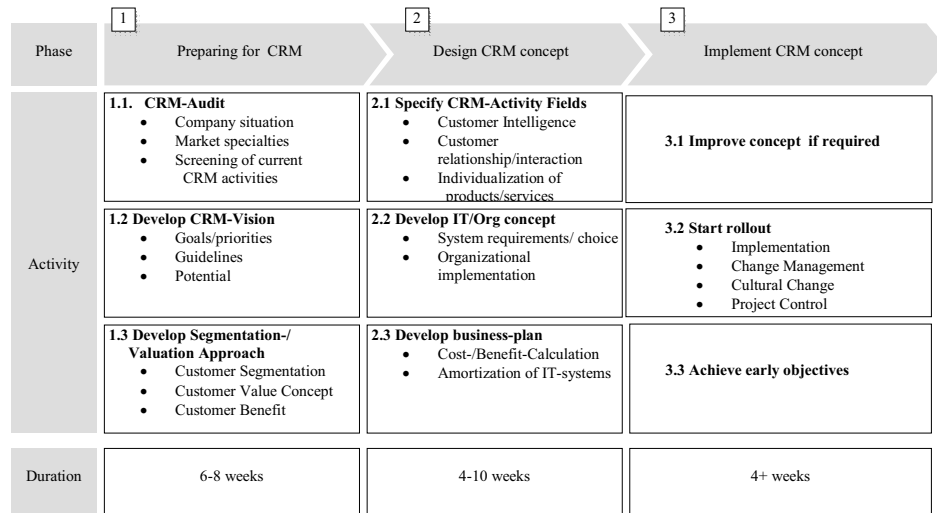


Fig. 4. Project Approach to Implementation

Second, the strategic CRM concept should be designed. The four activity fields have to be defined in detail as well as an IT and organizational concept. Then the entire concept should be put into a business plan. Additionally, specific criteria should be defined to measure the effects and therefore, the success of CRM activities.

Third, the CRM program is rolled out. In this phase adaptations to the original concept should be made if necessary. Achieving early objectives while implementing the full program shows results in early stages and helps to increase the acceptance of the project as well as provide motivation to the project team and the company.

The project team for the CRM implementation should include people from various departments. As a minimum, members from the IT, marketing, sales and service departments should be included. Taking an approach from new product development, if implementing a CRM initiative is treated as a new product development project, then its success, according to Urban, will reside "...at the intersection of technical standards, manufacturing capabilities and customer needs. Multifunctional teams help find or create this intersection" [18]. Because of the strategic importance and the department spanning role of CRM, top management should own the project. This helps to make sure that conflicts can be resolved successfully during the implementation phase, and also serves as a signal to all employees that the CRM initiative is taken seriously.

Conclusion

The ability of companies to create and maintain mutually valuable relationships can create an important, sustainable competitive advantage. CRM is a cross-functional strategy for retaining desired customers and can provide the company with an ongoing stream of profits over the lifetime of a customer. The success of CRM lies in how well cross-functional tasks are harmonized. As a result, CRM has a "contingent" character that requires a higher level of organizational skill than reliance on tactics that manipulate product attributes, price or promotion to create loyal customers. In conclusion, it appears that the European experience is similar to the North American and that differences appear to be in degree rather than in kind. This paper has attempted to lay out a road map, derived from both experiences, so that managers can take advantage of the many benefits of CRM to their operations. Guidance for the successful implementation of CRM is also provided.

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