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Understanding Customer Relationship Management: The Implications of CRM Fit and Customer Orientation

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Abstract

Customer Relationship Management (CRM) has been one of the important managerial issues. The benefits of Relationship Marketing has been well recognized and new information technologies offer amazing possibilities for CRM practice.

The processes of implementing CRM, however, are expensive, and yet the failure rate of the CRM projects is also high. Of the failures, 20% end up even damaging to long-standing customer relationships.

This study focuses on explaining theoretically why huge IT investment on CRM practice does not always generate the successful outcomes to the organizations, what are the critical factors of CRM, and how the factors influence the CRM performance.

Based on the review of the previous frameworks and definitions of CRM, the study proposes an integrated CRM framework. In addition, among others, CRM Fit and Customer Orientation are addressed as critical factors of successful CRM. Although technology has been identified as a main enabler of successful CRM, many CRM experts have claimed that it is not technology in isolation that brings the success to the CRM practice. Adopting Task-Technology Fit (TTF) model, CRM Fit, not Technology, is included in the research model. Therefore, this study proposes that CRM Fit has a positive relationship with CRM performance and Customer orientation moderates the effect of CRM Fit on CRM performance.

1. Introduction

The importance and benefits of customer relationship management has been well recognized [18] [24]. Kotler (1997) [18] mentioned that the cost of acquiring new customers is from 5 to 7 times more than retaining them. Reichheld and Sasser (1990) [24] have suggested that a company can improve profits by anywhere between 25 and 85% by reducing customer defections by a mere 5%.

In addition, Customer Relationship Management (CRM) technologies and other allied information technologies offer amazing possibilities for ideal, highly satisfying customer relationship management [14] [17]. Ives and Mason (1990) [17] have introduced several conceptual tools to use information technology to improve customer service. They point out that information technology can be used to enhance customer satisfaction by identifying and tracking individual customers; monitoring service levels by company representatives; and assisting customers in specifying, acquiring, fixing, or returning products. It is one of the main reasons why Customer Relationship Management gets substantial attention from researchers as well as practitioners.

The processes of implementing and executing CRM, however, pose difficult challenges for many organizations [1] [26]. According to one Gartner Group study, as many as 55% of all CRM projects are expected to fail during 2002-2006.

CRM systems cost an average of $35,000 per call-center agent to deploy, and setup and maintenance of CRM sales software typically cost $28,000 to $40,000 per salesperson over a three-year cycle [5]. Given such high costs of deployment and maintenance, the drastic failure rates represent huge financial risks for most CRM adopters. Furthermore, It is noted that of these failures 20% lead to damage to long-standing relationships [20].

The study focuses on comprehensive understanding of CRM practice. It attempts to explain theoretically why huge IT investment on CRM practice does not always generate the successful outcomes to the organizations. This study would achieve its goals by drawing from and blending multiple disciplinary perspectives such as the Task-Technology Fit model from Management Information Systems (MIS) and Customer Orientation perspectives from Marketing and Business Strategy literatures. This study identifies factors that are critical for successful CRM implementation, how these factors work and interrelate, and what would be the effects of these factors on customer retention and satisfaction and therefore on the performance of the CRM-implementing organization.

2. What is CRM?

2.1 What/who is Customer?

To answer the question, “What is customer relationship management?” we need to first define the customer. Many different answers exist to these questions, and the broad definition of customer includes suppliers, buyers, consumers, and employees (internal customers) [11]. However in this study, the definition of customer is limited to buyers of the product or service, which a firm provides.

2.2 What is CRM?

Having narrowed the focus of the term "customer" to the product/service buyer, understanding what is CRM and what elements constitute CRM is the next step. Specific buyer-focused CRM projects need to be properly implemented and managed in each organization.

Many researchers and practitioners have attempted to define CRM in various ways. CRM has been seen as different things to different people in the different areas [14] [26] [27]. For some, CRM is understood as computer application and database marketing while for others, business strategy. Even though the definition of CRM is not consistent among researchers, based on the review of previous frameworks of CRM, three core dimensions characterize a buyer-focused CRM system: Customers in the center, Management's articulation and tracking of customer relationship goals, plans, and metrics, and Technology, which include collaborative, operational, and analytical CRM systems. These key elements of CRM are shown in Figure 1. Each level has to be coordinated for successful CRM implementation and performance outcomes.

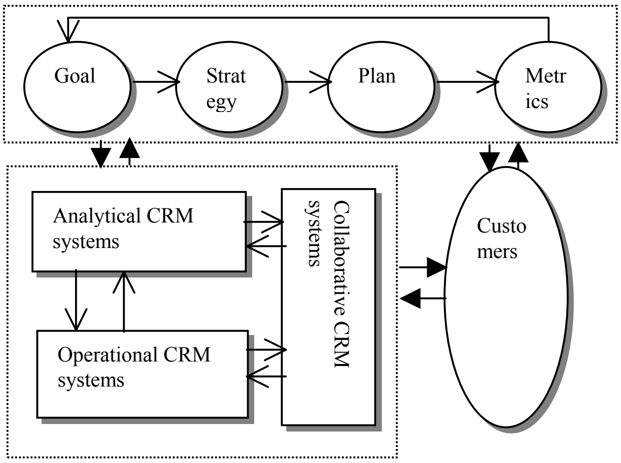

Figure 1. Framework of CRM

First, management level should be included to understand CRM since CRM has been seen as strategy of the organization [2] [7] [25]. Management level should be included in any understanding of CRM. Starting from the corporate level goals, strategies should be established to accomplish such goals. As well, the strategies have to be followed by specific plans and the performance of these plans has to be tracked and evaluated thoroughly. CRM projects have to take organizational level goals and strategy as the starting point because it is these goals, strategies, and plans that reflect the corporate philosophy regarding customer orientation and inculcate a customer-responsive corporate culture.

Second, technological structure contains analytical CRM systems, operational CRM systems, and collaborative CRM systems.

Analytical CRM systems include Knowledge Discovery in Database (KDD) concept and data mining. KDD is outlined as a process, often iterative, of data selection and sampling, of pre-processing and cleaning, of transformation and dimension reduction, of data mining or analysis, and of visualization and evaluation [19].

Operational CRM systems entail the integration of all the front-end customer-facing functions of the business. For example, since the sales process depends on the cooperation of multiple departments performing different functions, the systems to support the business process must be configurable to meet the needs of each department [10] [15]. Business process reengineering and the integration with the ERP legacy systems [15] are included in the issues of operational CRM. It is important to note that the organization should review its business process before installing the systems.

Collaborative CRM systems refer to CRM functions that provide points of interaction between the customer and the channel [15]. It can be the communication center, the coordination network that provides the neural paths to the customer and his suppliers. It could mean a portal or a customer interaction center (CIC).

Third and finally, the raison d'être of any CRM system is the customer. Customer service and related issues must be included in the design, implementation, and operation of any CRM system. CRM software needs to pay attention to not only the users within the implementing organization, but also to the end customer [10]. While enhancing the operational efficiency of the organization is an important goal of using CRM technology, servicing and delighting the customers are the ultimate end-goals as well as the ultimate determinants of success.

With these components in place, CRM is defined as a core business strategy that integrate internal processes and functions and external business networks to interact, create and deliver value with personalized treatment to targeted customers to increase customer retention at a profit. It is grounded on high quality customer data and enabled by information technology [2] [7].

3. How does CRM work?

As the framework of Figure 1 indicates, information technology plays a critical role in the CRM practice. And in fact, huge investments in technology characterize the contemporary practice of CRM.

To explain how CRM systems lead to the increased customer retention and satisfaction, the framework of Task-Technology Fit (TTF) model is adopted and adapted. The TTF model highlights the importance of task-technology fit in explaining how technology leads to performance impacts [12]. TTF assumes that the performance impacts depend upon the fit between three constructs: technology characteristics, task requirements, and individual abilities. Thus it emphasizes that it is not the technology in isolation that affects performance – organizational characteristics also come into play [13]. These notions are appropriate for CRM practice study since many CRM experts have claimed that it is not just technology that brings the success to the CRM practice, even though technology is the enabler of CRM [6].

Therefore, along with technology, organizational factors play a crucial role in the success of CRM systems. Figure 2 outlines the proposed model of factors that drive CRM performance and success.

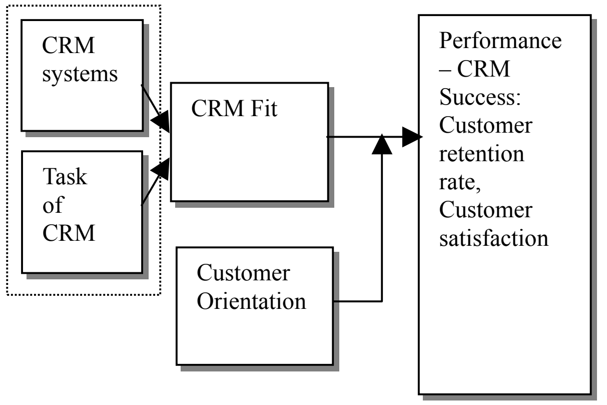
CRM systems
Task of CRM
CRM Fit
Customer Orientation
Performance – CRM Success: Customer retention rate, Customer satisfaction

Figure 2. Research Model for CRM Fit

This model contains two main factors for the successful CRM: CRM Fit, not technology, and Customer Orientation. Based on the previous research, CRM Fit is expected to have a positive relationship with CRM success and Customer Orientation moderates the relationship. As antecedents of CRM Fit, both CRM systems, and Tasks and goals of CRM are addressed. The two antecedents are expected to have interaction effect on CRM Fit. Following is the review of each factors.

3.1 Antecedents of CRM Fit: CRM Systems

Technologies (CRM systems) are viewed as tools used in carrying out the tasks in the TTF model [12]. The tools can be computer systems (hardware, software, and data) and user support services (training, help lines, etc.).

The technical architecture of CRM can include multiple applications; performing analytical, operational, and collaborative functions. In the CRM technical structure, on the analytical side, a data warehouse typically maintains historical data that supports generic applications such as reporting, queries, online analytical processing (OLAP), and data mining as well as specific applications such as campaign management, churn analysis, propensity scoring, and customer profitability. On the operational and collaborative sides, data must be captured from the in-bound touch points, including the Web, call centers, stores, and ATMs. As outbound touch points, email, direct mail, telemarketing, and mobile devices [14].

Depending on the situation, however, a firm can choose different set of application packages with the different target. Software packages and systems tend to vary considerably. The decision on the applications and systems a firm chooses is totally dependent on the situation. Therefore, the recognition of all the possible CRM tools seems not only impossible but also undesirable.

For this reason, the proposed study focuses on overall quality of CRM systems. Like other similar studies on TTF, identifying the quality evaluation criteria, rather than the lists of the tools used in the firm, is more suitable for the purpose of this study.

In this model, CRM systems are measured by system quality and information quality. System quality has been recognized as a measure of the information system itself [8]. For example, system characteristics can be measured by the content of the database, aggregation of details, response time, and system accuracy. Information quality has been studied as a measure of information system product [8], that is, the quality of information that the system produces, primarily in the form of reports.

3.2 Antecedents of CRM Fit: Task of CRM

Task of CRM contains the goals, depth and width of CRM, and business process design. The goals of CRM can be customization, flexibility, recovery, and spontaneous customer delight which can be delivered to the customers and those have been identified as the main drivers of customer satisfaction to be influenced by the infusion of technology [4]. CRM depth is measured by the three different targets of CRM practice [14]. The CRM targets which are applications, infrastructure, and transformation [14]. The authors explained that all those three targets are supposed to be addressed by CRM systems, but in practice, most of the companies can be categorized as focusing primarily on one of these three CRM targets. As well, the Customer Service Life Cycle (CSLC) can be used to identify the width of CRM. CSLC was initially introduced by Ives and Learmonth [16] and described a series of activities that customers would be engaged in as they purchase a product/service. The customers will traverse a life cycle as he/she first learns about it, and then learns how to specify, order, use, repair, and finally discard it. They argued that CSLC provides a powerful tool to assess opportunities to use information technology provide better service. Business process design for customers will be investigated as one of the important CRM tasks, and the focus will be how well the business process is designed to serve customers.

3.3 CRM Fit

Task-Technology Fit is defined as the degree to which a technology assists an individual in performing his/her portfolio of tasks [12]. In line with this definition, CRM Fit is defined as the degree to which CRM systems fit well the tasks and goals of CRM. The antecedents of CRM Fit are the interactions of tasks and goals of CRM and CRM systems. Eight factors were introduced to measure TTF, and the factors are Quality, Locatability, Authorization, Compatibility, Ease of Use/Training, Production Timeliness, Systems reliability, and Relationship with users [12]. These factors are used for CRM Fit in this model. Therefore, in this model, the interaction of task of

CRM and CRM systems is expected to be an antecedent of CRM Fit, and the good CRM Fit is expected to show positive relationship with the CRM performance, which is measured by customer retention rate and satisfaction.

3.4 Customer orientation

Finally in this model, Customer Orientation is included. Customer orientation has been seen as one of the three components of market orientation [21]. To date, the concept of market orientation has long been observed and extended by many researchers from Narver and Slater [21] to Nobel, Sinha, and Kumar [22]. Quite a few studies have found support for the fundamental market orientation and performance relationship [23]. Following Narver and Slater (1990)'s definition, customer orientation is referred to as "the sufficient understanding of one's target buyers to be able to create superior value for them continuously [21, p.21]" in this study. As well, it is broadly recognized that successful organizations need to have a customer-oriented business culture [3] [9]. Therefore, customer orientation is expected to influence the relationship between CRM FIT and performance in the context of CRM practice.

In sum, it is proposed that for successful CRM practice, the technology implemented should have good fit with the tasks and goals of CRM. Just implementing expensive technology is not sufficient. As well, not only the good fit between the technology and the goals and tasks of CRM, but also customer orientation is required.

4. Possible outcomes and contributions

From this study, it is expected to see the positive relationship between good CRM fit and the performance of the organization. Customer orientation is expected to moderate the relationship between the CRM fit and the performance.

This study will provide a comprehensive CRM framework and propose a model of critical factors for CRM success. Following are the theoretical implications of this research. First, the resultant conceptual frame and a model would provide a stronger theoretical basis for understanding the technology aspects of customer and market-focused research in the Marketing discipline. This is because CRM technology is examined based on theories adapted from MIS as well as Marketing. Second, the measures for CRM Fit will be based on scrutiny of CRM practices including technology and CRM business goals. The structure and dimensions of CRM Technology and CRM activities and goals will be a cornerstone for CRM conceptualization. Third, the study will theoretically shed light on the importance of customer centric management as well as information technology in CRM practice. Fourth, the factors identified from the literature will be tested empirically.

The major benefits of this study to the managers would be closer matching of CRM technology and CRM goals, leading to increasing levels of customer satisfaction and customer retention. The results of the study will provide theoretical explanations about why huge IT investments in CRM practice do not always generate the successful outcomes desired by organizations and what factors other than technology should be focused on. Investments in CRM technology could then be planned based on careful review of business goals. Also, the measures for CRM Fit would help managers diagnose their businesses for CRM readiness and CRM technology investment. Many variables and measures developed in this study should be employable later as analytical tools for evaluating the organizations' CRM adoption, deployment, and management capabilities. In addition, the analyses of the business processes will provide guidance for better services to customers. The results will provide guidelines for using CRM systems to design customized / personalized services that delight the customers. The results of the study will guide for the smart investment to the information technologies since it will investigate the scope (depth and width) of CRM practice.

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