

**CROSS-FUNCTIONAL ISSUES IN THE
IMPLEMENTATION OF RELATIONSHIP MARKETING
THROUGH CUSTOMER RELATIONSHIP
MANAGEMENT (CRM)**

by

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Abstract

There is a major change in the way which companies organise themselves as firms switch from product – based to customer-based structures. A key driver of this change is the advent of Customer Relationship Management which, underpinned by information systems convergence and the development of supporting software, promises significantly to improve the implementation of Relationship Marketing principles.

In this paper we explore the three main issues that can enable (or hinder) the development of Customer Relationship Management in the service sector; the organisational issues of culture and communication, management metrics and cross-functional integration – especially between marketing and information technology.

Keywords

Customer relationship management

Cross-functional integration

Information technology

Relationship Marketing

Introduction

Customer Relationship Management (CRM) has its roots in relationship marketing which is based in turn on the formative work by Berry (1983), the IMP Group (see e.g. Ford, 1990) and Christopher et al (1991). Seminal contributions to the relationship marketing debate were made by Reichheld and Sasser (1990) and Reichheld (1996) reporting on the customer retention work of Bain and Co. These findings indicated that a 5% increase in customer retention resulted in an increase in average customer lifetime value of between 35% and 95%, leading to significant improvements in company profitability (see Figure 1).

Figure 1: Impact of a 5% Increase in Retention Rate on Customer Net Present Value

Industry	% Increase in Customer NPV
Advertising Agency	95
Life Insurance	90
Bank	85
Insurance	84
Car Service	81
Credit Card	75
Laundry	45
Facilities Management	40
Software	35

Source: adapted from Reichheld, 1996

Reichheld concluded that there are six underlying reasons why retained customers are more profitable (p. 39):

- Customer acquisition costs may be high, so customers may not become profitable unless they are retained for one or more years;
- There will be a stream of profits from the customer in each year after acquisition costs are covered;

- Customers buy more over time, so revenues go up; Companies become more efficient at serving them (there is a learning curve to the relationship), so costs go down;
- Retained and satisfied customers may refer other potential customers;
- The relationship has a value to the customer too, so that retained customers tend to become less price-sensitive.

The purpose of relationship marketing is to improve long run profitability by shifting from transaction-based marketing, with its emphasis on winning new customers, to customer retention through effective management of customer relationships (Christopher et al., p.19, 1991). While the development of theory in relationship marketing continues unabated, the key question facing practitioners is, how can this shift in management focus be implemented in practice?

This paper sets out to address issues concerning relationship marketing implementation through the application of Customer Relationship Management (CRM) and related technologies.

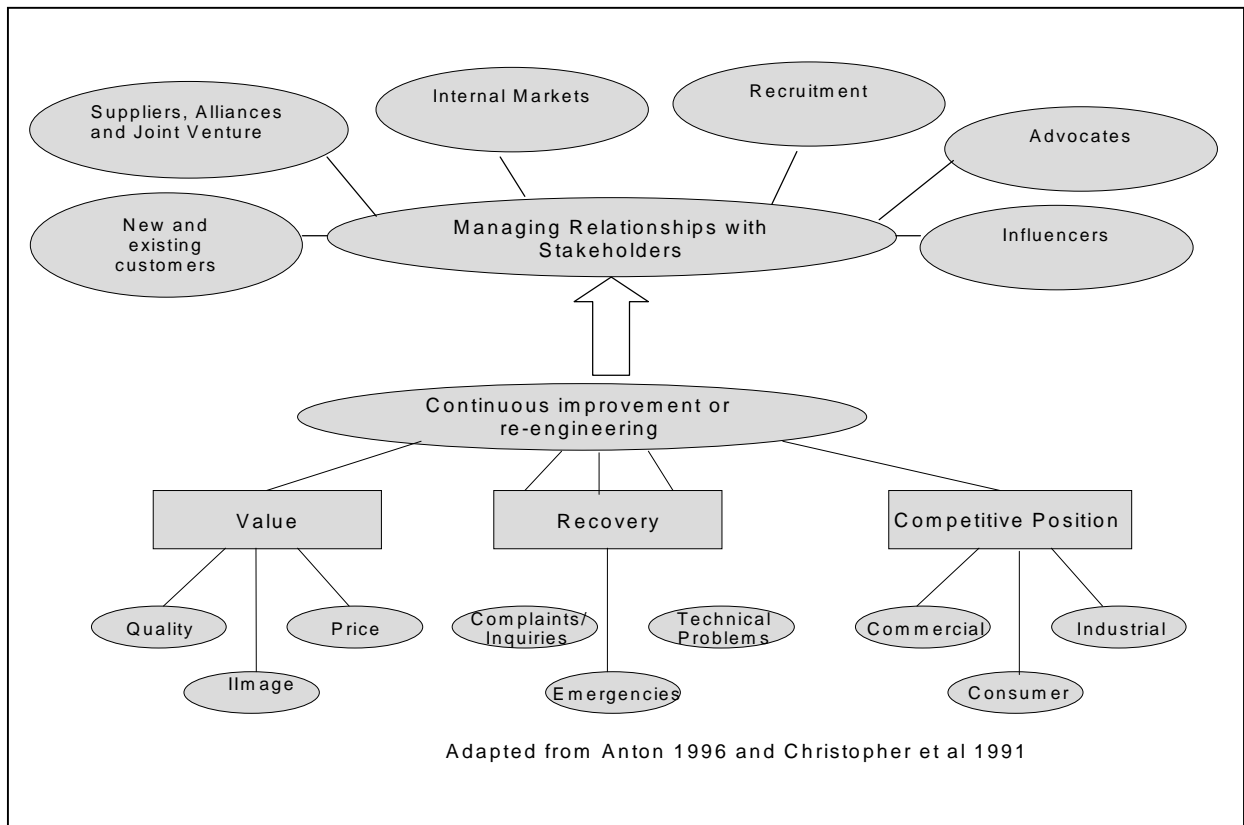
Customer Relationship Management

CRM complements the relationship marketing perspective. It is defined by Couldwell (1998) as, “. . . a combination of business process and technology that seeks to understand a company’s customers from the perspective of who they are, what they do, and what they’re like.” As is the case with relationship marketing, CRM focuses on customer retention (Lockard, 1998; Deighton, 1998) and relationship development (Galbreath, 1998). According to Kutner and Cripps (1997), CRM is founded on four relationship-based tenets:

- Customers should be managed as important assets.
- Customer profitability varies; not all customers are equally desirable.
- Customers vary in their needs, preferences, buying behaviour and price sensitivity.
- By understanding customer drivers and customer profitability, companies can tailor their offerings to maximise the overall value of their customer portfolio.

Anton (1996) characterises CRM as an integrated approach to managing relationships. However, critically, he underpins relationship management with “*continuous improvement or re-engineering*” of customer value through better service recovery and competitive positioning of the offer (see Figure 2).

Figure 2: CRM – an Integrated Approach to managing relationships



Others emphasise a technological rather than a relational perspective to CRM; Peppers and Rogers (1995) claim that, “...*the marketplace of the future is undergoing a technology-driven metamorphosis.*”, which Kutner and Cripps (1997) encapsulate as, “*data-driven marketing*”.

Notwithstanding these technological perspectives, the philosophical bases of CRM are a relationship orientation, customer retention and superior customer value created through process management. IT is the ‘glue’ that holds these together and enables the whole to be operationalised. In consequence, the successful implementation of CRM requires Marketing and IT to work closely together to maximise the return on

customer information. This will almost certainly require a degree of cross-functional reorganisation.

In summary, the key characteristics of CRM are:

- A customer relationship perspective aimed at the long-term retention of selected customers.
- Gathering and integrating information on customers.
- Use of dedicated software to analyse this information (often in real time).
- Segmentation by expected customer lifetime value.
- Micro-segmentation of markets according to customers' needs and wants.
- Customer value creation through process management (Hammer & Champy, 1993; Hamel & Prahalad, 1994).
- Customer value delivery through service tailored to micro-segments, facilitated by detailed, integrated customer profiles.
- A shift in emphasis from managing product portfolios to managing portfolios of customers, necessitating changes to working practices and sometimes to organisational structure.

In essence, CRM provides management with the opportunity to implement relationship marketing on a company-wide basis. However, for CRM to be successful, all of these activities need to be managed in combination. What makes this possible are the recent advances in enterprise software. One company pioneering these developments, Sun Microsystems, identifies three levels of customer information technology. At the simplest level are reporting tools that link sales staff with other elements of the business. Then there is online analytical programming (OLAP) which analyses data as it comes in, enabling users to 'drill down' through levels of data to examine exceptions to purchase patterns and to understand trends and anomalies. The third level, data mining, is more sophisticated still, and enables obscure correlations to be identified. It might, for example, reveal that sales of baby food increase if it is placed near to the beer shelves in a supermarket! (Sunday Times, 1999).

The Adoption of CRM by Industry Sectors

Despite the enthusiasm of many commentators, acceptance of CRM is by no means universal. Woods and Remondi (1996) found that many high-technology companies do not recognise the potential benefits of CRM to sales effectiveness and long-term marketing success and still use traditional marketing approaches. Others think that these classical marketing skills, and the basics of quality, cost and convenience, rather than “expensive IT and neural networks”, are what is really needed to give an organisation a competitive edge (Hagel, Bergsma, & Dheer, 1996). Certainly there is anecdotal evidence that the finance sector is trying to run before it can walk when it implements advanced IT/marketing practices before absorbing the basic underlying tenet of customer orientation. A report by the Consumers’ Association concluded that, far from rewarding customers for loyalty, banks often leave them out of pocket (Consumers’ Association, 1999). Criticisms of this sort led the government to commission the Cruickshank Banking Report which estimated that the major UK banks overcharge their customers by between £3 and £5 billion per year. Payments, though efficiently automated, still take just as long to make as they did in Victorian times. Consequently, banking services to small businesses are to be referred to the Competition Commission (The Times, 2000).

Even without such pressure from government, the need for change in the financial sector is already being driven by economic need and competition. The Cruickshank Report acknowledges that there is no need for action in the individual banking sector where banks are experiencing strong competition from new market entrants who can offer better customer service without the banks’ legacy of perceived inefficiency, poor service, and mis-selling (Mitchell, 1997; Ratcliff, 1998).

In other industry sectors hard evidence of an increasing focus on customer profitability, lifetime value, retention and satisfaction, is reported by Abram Hawkes and Market Shape. They found that 90% of organisations recognise the value of customer retention: 60% thought that there were links between customer loyalty and the duration of the customer relationship, and 45% said that loyalty marketing yielded a better return on investment than expenditure on advertising (Reed, 1997). Successful companies manage customer relationships based on potential profitability (Economist

Intelligence Unit, 1998).

There is growing recognition in the literature that companies will have to adapt to survive, and that this means fundamental changes in the way that firms are organised (for example Webster, 1992; McDonald et al., 2001). A key challenge facing firms in making this transition is the efficient integration of CRM initiatives into whole-company customer relationship development.

Committing to CRM: Organisational Issues

A major change is already underway. The proportion of firms organised around their customers is expected to rise from the current level of about 20% to 50% by 2002. By that time, about three-quarters of firms expect to achieve a high degree of integration between sales and IT functions in contrast to less than 30% in 1998. To support these changes, the proportion of companies operating a data warehouse is expected to more than double to over 80% (The Economist Intelligence Unit, 1998).

Management academics have been preaching customer orientation for decades, but practice has remained stolidly product orientated (see e.g. Levitt, 1960 & 1986; Drucker, 1973). However, a combination of factors has now simultaneously obliged and enabled firms to re-organise around their customers; widespread changes in business processes, growth of the services sector, and the availability of cost-effective software solutions to the challenges of 'mass-customisation'. Although these factors are facilitating the shift from product management to a customer focus, the shift will not be easily achieved. The necessary changes will impact on the ways that companies view their customers and how they treat them, how they are themselves organised and how they measure and reward success.

As companies attempt to re-orientate themselves around customers, individual employees will have to come to terms with changing cultural norms, organisational structures and the way that their performance is measured and rewarded. Studies by Martiny (1998) and Braganza & Myers (1996) indicate that the commitment of senior management is critical to success. This was reinforced in a META Group report

(1998) that singled out the Chief Executive Officer's (CEO) involvement as a key success factor for CRM projects, concluding that, "*Investing in CRM technology without a customer-oriented cultural mindset – inherited hierarchically throughout the enterprise from the CEO – is like throwing money into a black hole*".

Data management systems are the tools that enable the whole firm to reorganise around its customers, but they are not sufficient in themselves. Companies that regard customer information management as a marketing department responsibility and leave it in the hands of marketing planners and product managers in the expectation of short term payoffs are missing the point. The adoption of customer-oriented strategies requires an organisational culture that is adaptive and responsive to change, and the quality of communication within an organisation is an important aspect of any change initiative. Failure to successfully communicate a change initiative and its implications for employees can lead to failure; an effective internal communication strategy needs to be in place, so that there is 'buy-in' to the initiative led by the top-management team. However, if cultural change is to take place, then the way that success is measured and rewarded must change first (Jennings, 1997).

CRM Adoption and Management Metrics

Spitler (1997) reinforces Jennings's view, pointing out the failure of many industries to adopt appropriate metrics, "*If there is a single shortfall today in the [banking] industry's migration to a customer relationship model of the business, it is the lack of adequate, insightful customer MIS (Marketing Information Systems) and customer performance metrics.*" Many commentators are also concerned about the shortcomings of existing performance measurements, such as Return on Investment (ROI) which:

- Does not incorporate off-balance sheet items, especially the intangible assets that increasingly influence business performance.
- Does not encourage management to invest in assets that do not influence short-term performance, and so does not strategically position the organisation for the future.
- Is subject to accounting manipulation and other factors that distort the reported performance of the firm.

(Adapted from Lusch and Harvey, 1994)

Kaplan & Norton's (1992) Balanced Score Card approach was the first significant attempt to provide metrics across the enterprise. This was followed by Edvinsson, who founded the Intellectual Capital movement which stresses the importance of metrics to address, *"the possession of knowledge, applied experience, organisational technology, customer relationships and professional skills that provide knowledge-based companies with a competitive edge in the market place"* (Edvinsson & Malone, 1997). It is the quality of an organisation's customer information and its ability to manage customer relationships that are going to be the critical measures of long term success. Technology, process, organisation and customer orientation are all vitally important to this, but it is the individual employees who are the building blocks of customer relationships. Therefore, the measurement system should facilitate and reward customer orientation. Meeting the organisational challenges of customer orientation, marketing and technology skills will become increasingly more important for employees. Constant training to reinforce existing procedures and to implement newly created programmes is needed to maintain a competitive edge (McDonald, 1993).

Examples of good practice include Dell Computer Corporation, whose technicians are trained to hone the customer relation skills they need for telephone support and problem guidance, and to focus directly on the customer's needs without using technical jargon. The Ritz-Carlton hotel group combines employee training with information systems to provide its guests with superior service, whenever they stay with the hotel chain. Employees are given a 'guest preference pad' to record every preference gleaned from conversation, or observation. These are entered daily onto a world-wide database so that the requirements of a guest staying at any other Ritz-Carlton in the world are immediately known to the staff. In both cases, staff training and motivation are vital; a great deal depends upon accurate and consistent recording of information and the ability of staff to multi-task across functional boundaries (Ryals, Knox and Maklan, 2000).

CRM Convergence and Cross-functional Integration.

The key principles involved in relationship marketing are the gathering, co-ordinating and analysing of accurate data on customers, developing marketing strategies that personalise the relationship, and maximising the value to the organisation by focussing on higher value customers. This calls for a considerable degree of cross-functional co-operation. For example, all of the departments that have dealings with customers (e.g. accounts, despatch, sales, customer service and even distributors and agents) normally hold data on them. Organising the whole firm around its customers requires the convergence of these disparate information systems in order to accelerate processes and facilitate “whole customer” information sharing. This is a key CRM role, “*CRM integrates marketing, sales and service functions through business process automation, technology solutions and information resources to maximise each customer contact. CRM facilitates relationships among enterprises, their customers, business suppliers and employees.*” (Galbreath, 1998). This convergence of business functions assists in cost reduction, efficiency improvements and increased productivity (Elliott, 1997) and should pervade the culture of the organisation.

However, Hall (1997) found that, even where organisations have technological integration, performance integration does not always follow. Many departments and individuals see customer handling as a sales or marketing function, and regard the release of their data to another function as signalling a loss of power. Software developers are becoming increasingly aware of these problems. By learning from implementation difficulties in early Enterprise Resource Planning (ERP) systems, the new wave of post-ERP systems will address, “*...the cultural and organisational shifts needed to align IT and business-management objectives once and for all.*” (Stein and Caldwell, 1998).

While the role of key account manager plays an important part in customer relationships, functional boundaries can limit managers’ ability to fulfil the key account role effectively. Therefore, in order to neutralise the negative impact which functional boundaries can have on the successful implementation of CRM, an integrated approach is required, with marketing, operations, information technology, and financial accounting all participating (Morris, 1994). Although the ultimate goal of integration may be the segment-of-one, where product / service offers are tailored

specifically to the individual, but is not yet achievable in most companies. Even realigning to serve a 'segment-of-several' requires far greater cohesion between business units than currently exists (Larson, 1996).

Hall (1997) notes that the critical interface is between marketing and CRM technology. An understanding of the perspective from both of these disciplines is a prerequisite of cross-functional integration:

The Marketing Perspective

The marketing perspective on CRM hinges on its potential to offer better customer service, and to improve marketing effectiveness through better focus (McDonald and Wilson, 1999; Bessen, 1993). IT can help improve customer service in a number of areas, including reliability, efficiency, and communications as well as quality control and service monitoring (Berkley and Gupta, 1994)

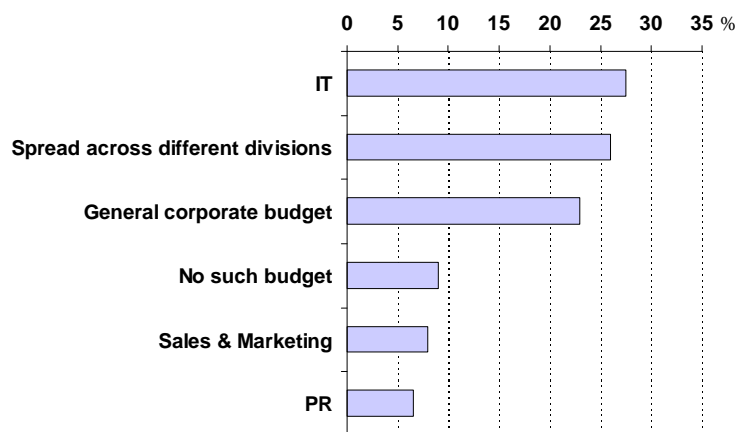
CRM systems offer operational improvements (Stein and Caldwell, 1998), the opportunity to capture and analyse information about purchasing behaviour – often in real time (Hagel and Sacconaghi, 1996) and long-term success through deeper and closer customer relationships (Beckett-Camarata, Camarata, & Barker, 1998). Detailed customer profiles facilitate precise matching of marketing offers to prospects (Harrison, 1993), and can be used to track the effectiveness of marketing programmes (Mann, 1990), as well as providing the basis for future planning (Shani and Chalasani, 1993). Customers also benefit when product / service offers are tailored to them individually or in micro-segments and can lead to greater loyalty (Mitchell, 1998). According to Schulz (1996), the combination of customer demands and new enabling technologies make the move to one-to-one marketing inevitable.

Conversely, customer data analysis and profiling also enables an organisation to identify the customers it does *not* want to serve. The Pareto rule suggests that 80% of profits are generated by 20% of customers, but in some industries even more extreme differences in customer profitability exist, "*Some commercial banks have found that 10% of their current account customers are responsible for more than 100% of their*

profits (i.e. the other 90% are, on average, loss-making)” (Stone, McFarlane, Visram and Kimmel, 1996).

Although developments in CRM have often been short-term and uncoordinated in the past, recognition of the need for cross-functional, IT integration is now so strong among marketing practitioners that integration of the sales system with other business processes is the highest priority for sales and marketing investment (McDonald and Wilson, 1999; Ferguson and Shaw, 1996). However, despite this, a very recent survey by Simpson Carpenter Research of 100 global companies reveals that CRM budgets still seem to be allocated across business functions on a rather piecemeal basis, with less than 25% of firms holding a central, enterprise budget (Internet Business, 2001). IT departments were found to be the main custodians of CRM budgeting (see Figure 3).

Figure 3: CRM budget holders



Source: Simpson Carpenter Research

The IT perspective

According to Schultz (1993), the IT perspective is that changes in CRM practice are being driven both by evolving customer demand and by developments in the enabling technologies. Despite this, IT managers do not always see customer development as part of their business challenge, and some are reluctant to share customer data with other departments because such information is their power-base. It is often cross-functional integration problems like this, rather than technological problems, that are

the major impairment to progress (Domegan, 1996; Stone, McFarlane, Visram and Kimmel, 1993; Elliott, 1997).

Some of the responsibility for this lack of cross-functional integration lies with senior managers who fail to recognise the importance of the technological underpinning for CRM. According to Hewson (1999), board level support for major IT projects is rare – though very helpful when it happens. Rees-Mogg (1997) attributes this, in part, to board members' superficial understanding of IT combined with their inability to decide what they need. This in turn contributes directly to the difficulties that IT managers experience in scoping out CRM projects where the organisational goalposts seem to move continuously. Board directors, for their part, can feel that investment in IT projects is often much higher, and the benefits much lower, than promised.

Criticisms such as this have led to pressure on IT managers. Grindley (1995) notes that there is still no general acceptance at board level of the need for large scale spending on IT infrastructure and often financial benefits are attached to IT projects that are not expected from other parts of the company.

For their part, IT managers sometimes feel that they have a better vision for the business than line directors (Hewson, 1999). Their challenge is selling their vision to the board. According to Grindley (1995), IT managers have even been known to upwardly adjust the numbers for return on investment in order to push through the changes they believe are fundamental to the long-term success of the business, disguised as short-term efficiency gains (McDonald and Wilson, 1999).

A major concern for IT practitioners contemplating a major investment in CRM technology is the high failure rate of IT projects. In a series of studies cited by Leverick, Littler, Bruce and Wilson (1998) they quote from a survey of 400 British and Irish companies which found that only 11% of respondents claimed their installation had been successful. In another, it is claimed that between 30-40% of IT projects realised no appreciable benefits at all. A third study found that three-quarters of IT projects were either uncompleted or not used when they were completed. However, from the IT manager's perspective, the main problem is more about

management rather than IT failures. These management issues include: absence of strong sponsorship, a lack of cultural readiness, inadequate supporting budgets and an absence of complementary customer management skills (Stone, Woodcock, Foss *et al*, 1998). The British Computer Society's Technical Board agrees that many project failures are due to business needs not being adequately translated into IT strategy. Consequently, the Society has recently approved the formation of a new Specialist Group for people working as the interface between IT and business users. The aim of this Group is to transform the relationship between business and IT departments and define a new career path for IT people who they say are currently struggling with little or no recognition. This is very much to the profession's credit, but the view from the other side of the business interface is less encouraging: a recent survey endorsed by the Institute of Directors showed that about half of UK directors had never been briefed on their company's technology – and never intend to have such a briefing (Kavanagh, 2000).

Managerial Implications

IT has the potential to transform relationship marketing by generating market knowledge, supporting group decision-making, and facilitating customer transactions (Business Intelligence 1994). The financial services industry has taken an early lead in CRM implementation (Codington and Wilson, 1994) because its transactions are essentially IT-based, and these firms already hold a wealth of information about individual customers. However, the use of technology on its own is not sufficient. Although most financial services companies now have at least some form of customer marketing database, they do not always perform well in supporting customer development (Naval, 1998; Anon, 1993). Developments in IT must be combined with a relationship marketing philosophy that calls for the re-organisation of the firm around its customers. Re-organisation of the firm around its customers has some immediate implications for managers:

- A culture change that recognises that customers, not just products, drive profits. Marketing actions must, therefore, focus on long-term customer relationships, not just the short-term campaigns.

- A change in business measurement and incentives so that they reflect this new culture. For marketing, this might mean setting targets for customer retention as well as for new customer acquisition; for IT, this might mean measuring the success of a CRM technology project in terms of its contribution to building relationships with customers rather than its architecture and functionality.
- A change in working practices so that information is shared between departments to build up a picture of the firm's total relationship with the customer. This may also entail a change in organisational structure from traditional functional silos to cross-functional teams.

Two technology issues are critical: a strategic view of investment in properly managed IT, and an enterprise-wide approach to the use and integration of IT systems (McDonald and Wilson, 1999; Haapaniemi, 1996; Tavinien, 1995). The importance of technology in CRM implementation is such that these issues of strategic investment in IT and integrated IT systems may have to be addressed directly through:

- A clearer view about the business case for CRM investments which needs to be built around the longer-term impact of such investments on the firm's relationship with its customers, and not the short-term tactical benefits.
- Acceptance that CRM technology investments should be an enterprise-wide decision, heralding an end to small-scale projects that fail when their success in one business unit leads to ill-judged and hurried attempts to scale them across the organisation, often against the better judgement of the IT managers.
- Board support for the decision to invest in CRM, with board-level representation for the project. Top management buy-in must be seen to be taking place.
- Commitment to providing customer information to the 'front line' of staff who interface with customers, and breaking down the barriers of ownership associated with customer information.

In summary, successful implementation of CRM will require more effective management of functional interdependencies through process teams (Parson, Zeisser

and Waitman, 1996), and revisions in the ways that employee performance is measured and rewarded. Such a radical shift in expectations and behaviour towards CRM can only be achieved with the full commitment and support of the board and senior management (Fletcher and Wright, 1996; Perrien, Filiatrault and Ricard, 1993).

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