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CROSS-FUNCTIONAL PROCESSES IN CUSTOMER RELATIONSHIP MANAGEMENT

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Customer Relationship Management (CRM) is a strategic approach which involves creating a superior value for shareholders by developing relationships with certain categories of customers. CRM mixes the potential of information technology with specific relationship marketing strategies in order to create long term profitable relationships. CRM involves the management of customer relationship initiation, maintenance, and termination across all customer contact points to maximize the value of the relationship portfolio. Thus, CRM involves an integration of human resources, operations, processes and marketing capabilities, which is enhanced by information technology. To achieve superior performance, a growing number of companies are developing elaborate CRM systems and making creative use of sales force automation data warehousing, data mining and other query tools to better understand their customers. CRM systems are helping organization to identify and target their most valuable customers, to make more effective and efficient allocation of resources to achieve company goals.The literature notes a lack of CRM strategic framework that addresses management, technical and customer issues. This paper aims to emphasize the need for cross-functional approach to CRM which includes analyzing the five key processes: strategy development, value creation, integration of communication channels, information management and performance evaluation.

Key Words: customer relationship management, processes, cross-functional, strategic framework.

JEL Classification: M31.

1. Introduction

Customer Relationship Management, presented in literature and practice as an acronym (CRM) requires the use of information technology for the implementation of relationship marketing strategies (Ryals & Payne, 2001). As a result, often in the academic community and business the terms relationship marketing and customer relationship management are used interchangeable (Parvatiyar & Sheth, 2001). Relationship marketing is considered one of the main areas of modern marketing development, generating a variety of topics for researchers (Sheth & Parvatiyar, 2000). Although there are several definitions of relationship marketing (Berry 1983, Jackson, 1985, Gronroos, 1991 and 1996, Morgan & Hunt, 1994, Gummesson, 1994, Bennett, 1996; O'Malley, 1997), the common element is the importance given to customer retention as a means of increasing the organization profitability.

Relationship marketing involves building long term interactive relationships, especially with customers; this is the most important benefit for the organizations which have adopted this concept (Webster, 1992). This is underlined by Gronroos (1991) who states that the purpose of relationship marketing is to establish, maintain and enhance relationships with customers and other partners.

Nevin (1995) points out that CRM is a concept used to reflect a variety of themes and perspectives. Some of these issues provide a narrow perspective on CRM. Thus, at tactical level, CRM is databases marketing (Peppers & Rogers, 1995) or electronic marketing (Blattberg & Deighton, 1991). At strategic level, CRM is the selective customer's management in order to create shareholder value (Payne & Frow, 2005). Thus, CRM involves the use of information technology and focus on individual customer relationships to design a strategy for maintaining long term relationships with customers (Peppers & Rogers, 1995).

Both relationship marketing and customer relationship management focus on cooperation and collaboration relationship between the company and its customers, and / or among other participants in relationship. Dwyer, Schurr & Oh (1987) have characterized such relationships as interdependent and long-term oriented, rather than being focused on short-term discrete transactions.

According to Boulding *et al.* (2005), CRM is the result of continuous development and integration of marketing

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ideas, available data, technologies and organizational approaches, which represent an operational platform for the expression of relationship marketing. Gummesson (2002, p. 3) distinguishes between relationship marketing and CRM, as follows: "relationship marketing is a form of marketing based on interaction between the networks of relationships", while "CRM includes the values of relationship marketing strategies - with particular issues on relationship with customers - turned into a practical application."

Analyzing the relationship marketing and CRM definitions we can identify some differences between the two concepts. First, relationship marketing has a strategic orientation, while CRM is used at tactical level (Zablah, 2004; Ryals and Payne, 2001). Secondly, relationship marketing is focused on variables such as bond, empathy, reciprocity, trust and commitment, having emotional and behavioral components (Morgan and Hunt, 1994; Yau, Chow and Lee, 2000). In contrast, CRM has a managerial nature, referring to how the organization efforts focus on attracting, maintaining and developing customer relationships. Thirdly, relationship marketing is focused not only on the seller-buyer relationship, but also on relationships developed with different categories of stakeholders: suppliers, distributors, employees and different organisms (Morgan and Hunt, 1994; Gummesson, 2002).

Given the similarities and differences found between relationship marketing and CRM, Payne and Frow (2009) attempted to clarify these terms, proposing the terms customer management as a response to incorrect association of CRM with technology solutions. Thus, relationship marketing represents the strategic management of relationships with relevant stakeholders. CRM represents the strategic management of customer relationship, which requires the use of appropriate technology while customer management concerns tactical implementation and management of customer's interactions.

2. Theoretical Background

The literature notes a lack of CRM strategic framework that addresses management, technical and customer's issues. This is the main reason for disappointing results of many CRM initiatives (Kale, 2004). Although some researchers have proposed strategic context for CRM, Payne and Frow (2005) consider that this were not based on a process-oriented and functional conceptualization of CRM.

In the model proposed by Buttle (2001) we identified a number of specific stages for CRM: customer portfolio analysis, customer proximity, network development, value proposition development and relationship management. Also, this model includes several support variables including culture and leadership, the purchase processes, human resource management processes, data management processes.

Sue and Morin (2001) have developed a CRM context based on initiatives, results and contributions. This framework is focused on process and many initiatives were not explicitly identified. Winer (2001) proposed a model which includes activities like customer database development and analysis, determining customer to be selected, the tools used for targeting customers, means to develop relationships with target customers and metrics for CRM performance.

Ang and Buttle (2002) have conceptualized CRM on three levels: strategic, operational and analytical. At strategic level, CRM is a basic strategy with emphasis on customers and market. At operational level, the main purpose of CRM is business process automation. The analytical level involves the analysis of customer's information in order to design marketing campaigns. So, CRM is a business strategy that integrates internal and external business processes to create and deliver profitably value to a segment of customers.

Goodhue, Wixom and Watson (2002) have approached CRM as a technical architecture with an analytical and operational component. The analytical component of CRM is based on a data warehouse which allows analysis of customer's profitability, and effectiveness of marketing campaigns. The purpose of the operational component is to gather, integrate and store customer data from all points of interaction with them (Internet, call centers, sales).

Peppers and Rogers (2004) have proposed a strategic framework for CRM that included three aspects: establishing the principles for managing customer relationship, creating value for customers and measuring the customer's value for the organization.

Although these models have different components, CRM should be conceptualized based on cross-functional processes (Payne and Frow, 2005). According to Webster (2002), capabilities and processes within the organization are key means of linking customers to organization. Thus, it is recommended to take a cross-functional approach of CRM in order to cover the entire organization (Ryals and Knox, 2001).

Based on these considerations, approached as a process, CRM has been conceptualized on four distinct factors: "(1) building and managing ongoing customer relationships delivers the essence of the marketing concept (Webster, 1992, Morgan and Hunt, 1994); (2) relationship evolves with distinct phases (Dwyer, Schurr and Oh, 1987), (3) firms interact with customers and manage relationships at each stage (Srivastava, Shervani, Fahey, 1999), (4) the distribution of relationship value to the firm is not homogeneous (Mulhern, 1999; Niraj, Gupta and Narasimhan, 2001)" (Reinartz, Krafft and Hoyer, 2004, p. 294).

The first part of this conceptualization is based on relationship marketing literature that suggests that the development of long-term relationships with customers generate more benefits for the organization (Reichheld, 1996; Gronroos 1994, Morgan and Hunt, 1994). However, there are many factors influencing relationships performance: customer characteristics, customer size, customer needs, the likelihood of repurchase (Lindgreen et *al*., 2000; Hultman and Shaw, 2003). Relationship marketing strategy is not aimed at building as many relationships with customers but at developing profitable customer relationships.

The second aspect of the conceptualization is based on the assumption that CRM is an ongoing longitudinal process because a relationship requires the existence of interlinked transactions, taking place in a certain period of time. Thus, Dwyer, Schurr and Oh (1987) suggest that relationships between seller and buyer assume the existence of five phases: awareness, exploration, expansion, commitment and dissolution. Awareness refers to recognizing of the other party as a feasible exchange partner. This awareness is facilitated by the proximity of the parties; there are no interactions in this phase. Exploration is the phase in which potential exchange partners consider the obligations, benefits, limitations and opportunities for the exchange. This phase may include a period of testing and evaluation and is divided in five sub processes: attraction, communication and negotiation, establishing the balance of power, development of standards and expectations development. Expansion refers to increase relationship interdependence between the parties involved in relational exchange and to obtain additional benefits. Commitment refers to an implicit or explicit statement of the parties regarding the continuation the relationship. Dissolution phase was excluded from the conceptual framework of relationship development. This phase has a significant impact if it occurs after the parties have passed the phase of expansion and commitment, as it represents a source of physically, emotionally and psychologically stress.

The third aspect of the CRM conceptualization at the customer level refers to the fact that organizations interact and manage relationships with customers differently in each stage of relationship development. Thus, the objective of CRM is to manage a portfolio of relationships, which are in various stages of development. Organizations seek to mature customer relationships by selling products with a high probability of purchase (Kamakura, 2002).

The fourth point is the recognition that the distribution of value created within the organization is not homogeneous (Niraj, Gupta and Narasimhan, 2001). According to Mulhern (1999), often major customers do not receive due attention from the organizations. It is important that the resources allocation for different customer segments to be based on economic value of the segment (Rust, Zeithaml, and Lemon, 2004).

Examining the literature, Plakoyiannaki and Saren (2006) suggest four cross-functional processes: strategic planning, information process, value creation process and performance measurement process. In a research conducted on the basis of an expert panel, consisting of managers with experience in CRM and IT sectors, Payne and Frow (2005) have identified five cross-functional processes of CRM: strategy development, value creation, multi-channel integration process, information management process and performance assessment process

These five processes are integrated into the next model of CRM strategy and implementation (*Figure 1*).

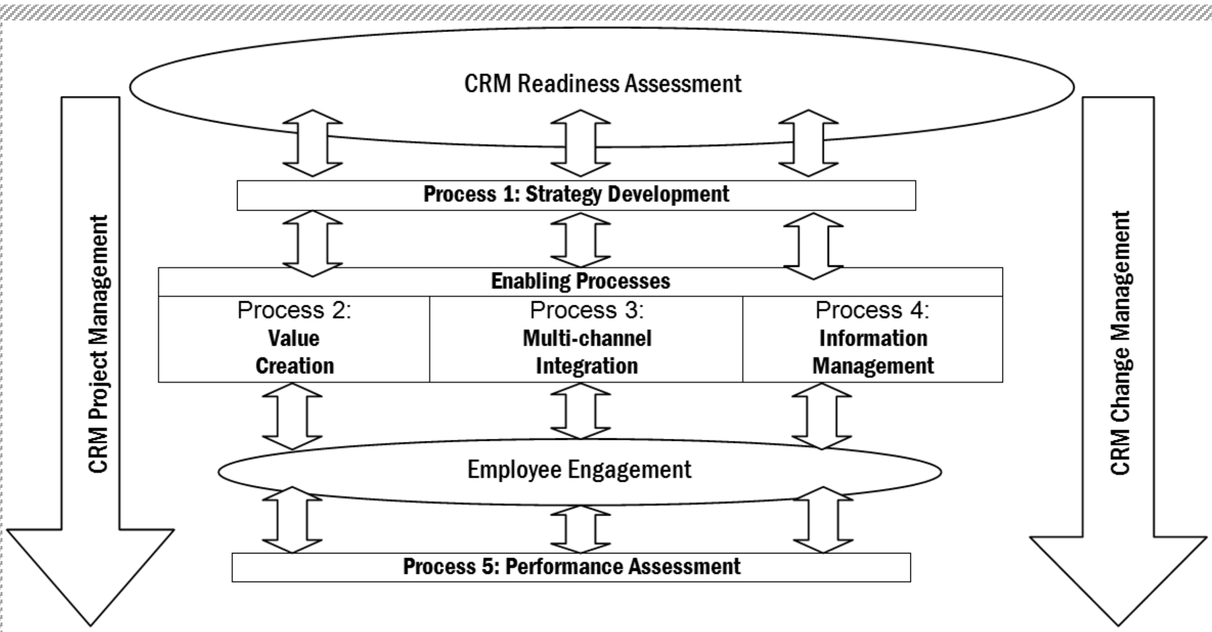

Figure 1. CRM Strategy and Implementation Model

Source: *Payne and Frow, 2006: 143*

The strategy development process

Strategy development process has a dual focus both on the organization's business strategy and the marketing strategy.

At the organizational level, the business strategy involves an analysis of a company's vision, the organization's capabilities and competitive environment. Business strategy lays the foundations for marketing strategy and the direction that will be developed in the future.

While the business strategy is the responsibility of top management and board of administration, marketing strategy is the responsibility of the marketing department. This strategy involves establishing the customer base and the level of subdivision for market segments, identifying key customer groups and specific marketing activities. Aligning and integrating marketing with business strategy should be a priority when they are developed in different departments of the organization (Payne and Frow, 2006).

The value creation process

Value creation process involves the transformation of marketing strategy development process outputs in marketing programs that create and provide value for customers and organization. The three main elements of the value creation process are (1) determining the value the organization can provide to its customers, (2) determining the value that an organization can receive from its customers, and (3) managing the value exchange which involves a process of co- creation and co-production of value.

The concept of value that a customer receives from a particular organization derives from the concept of benefit received by the customer. These benefits can be integrated as a value proposition explaining the relationship between product performances, customer needs and cost to the customer during the relationship cycle. To determine if the proposed value can provide a superior customer experience a company must estimate the relative importance setting of various attributes of a product (Payne and Frow, 2005).

However, the services marketing literature has developed a new approach, in which the customer is a co-creator and co-producer of value (Ravald and Gronroos, 1996; Vargo and Lusch 2004). From this perspective, the customer value is the result of co-production process, as an effect of customer acquisition and retention strategies used by companies. For an organization, it is important to understand how customer profitability varies across different customer segments and how the different retention strategies help to increase the customer relationship value.

Therefore, CRM programs should identify the value received by organization from their customers and the value received by customer from the organization; creating value is an interactive process between the parties.

In order to provide value to its customers, organizations must be able to identify and target certain categories of customers and develop a valuable proposition that justify the relationship between product performance, customer satisfaction and total cost generated by customers. Regarding the value proposition, few organizations have a written value proposition and a formal and structured approach to develop one (Payne and Frow, 2006).

Understanding the economic aspects of customer relationship is essential if the organization wants to maximize its customer lifetime value. The organization profitability can be increased by developing integrated programs to attract and retain customers associated with cross-selling and up-selling activities within the customer segment.

Multi-channel integration process

Various approaches used in customer segmentation and customer lifetime value estimation enable organizations to better understand how the value is created and shared between customers and organization. This can be achieved by providing superior customer knowledge across all channels through which the company to interact with customers.

Channel integration involves decisions regarding the best combination of channels, how to ensure interactions to obtain knowledge customers in these channels, the extent to which customers interact through multiple channels and how to create and present a "single view" of customer.

There are many types of channels through which organizations can interact with customers. These include: sales force (including service), point of sales (shops, stores and kiosks), telephony (including traditional telephony, fax and call center), direct marketing (including direct mail, radio, TV.) e-commerce (including e-mail, Internet and interactive digital television), and m-commerce (including mobile phones, SMS and text messaging, WAP and 3G services).

Integrated channel management process is based on the organization's ability to support the same standards for all channels to provide high value to customers.

In conclusion, multi-channel integration is a critical process in CRM as because it represents the point of co-creation of customer's value. The success of this process depends on the organization's ability to collect customer data from all channels and integrate them into existing data warehouse.

Information management process

Information management process can be compared with an "engine" that manages CRM activities (Payne and Frow, 2006, p. 147). This process includes several collaborative elements: a data warehouse, IT systems (including hardware, software and organization's middleware), analytical tools and front and back office applications. This process is linked to two key activities: collecting data from all customer contact points and develop a customer insight to enhance the quality of the customer experience. A CRM process requires integration of all customer interactions across all communication channels, front and back office applications and business functions. The system designed to manage this continuous integration is called integrated CRM solution.

Data warehouses are necessary when data about customers can be found along several functions and departments. Among the actual use of analytical tools, data exploration (Berry and Linoff, 1997), the data warehouse can be used to identify high value customers, to assist management in developing strategies for customer retention and increasing the customer value.

IT systems refer to the hardware and software used in the organization. Often, integration technology is needed before the databases can be integrated into a data warehouse to help users to access existing information within the organization.

Analytical tools that allow effective use of the data store can be found in packets of data mining (data mining) and specific software. This creates a series of algorithms and statistical models that allow exploration and analysis of information stored in data warehouses to discover rules, interdependencies and trends among various variables. The purpose of this is that companies improve marketing operations, sales and technical assistance, through a better understanding of customer behavior (Berry and Linoff, 1997)

Front office applications are programs used by organizations to support all activities involving direct interface with customers, sales force automation, marketing campaigns and call center management. *The back office applications* support activities for internal management, including software for human resources and logistics activities.

Assessment performance process

Performance evaluation process monitors whether specific CRM objectives are achieved at an appropriate standard and identifies the main lines of action to improve current processes. This process has a dual focus: on *shareholder results,* which provides a "macro" point of view of CRM performance determinants and *performance monitoring,* which involves "micro" view for CRM key performance indicators (Payne and Frow, 2005, p. 174).

The key elements that determine the shareholder results refer to creating value for employees, customers and shareholders and reducing costs.

To monitor performance, organizations use specific metrics for individual objectives of the departments, functions or strategic business units. For example, finance department seeks return of investment, the sales department analyzes the sales figures and the performance measurement system used by marketing department is based on measures related to customer satisfaction, attraction and retention.

Given that CRM is a cross-functional process performance measurement indicators should be used to cover the variety of processes and channels used to provide customer value. Among the indicators that can be used to measure CRM performance we can specify attracting new customers, customer loyalty, customer retention rates, customer satisfaction and customer profitability (Hong-kit Yim, Anderson and Swaminathan, 2004 and Verhoef, 2003).

3. Conclusions

The conceptualization of CRM needs to consider the level of CRM implementation within the organization. At customer level CRM involves a single image of the customer by integrating customer knowledge from all points of contact. Thus, CRM is a systematic process for initiating, maintaining and termination relationships with customers across all contact points to maximize the value of relationships portfolio.

Process based CRM approach involves identifying key processes and their main components. CRM aims to create value for organization and customers through creating and maintaining customer relationships. CRM process can be divided into sub-processes, which can be considered as processes on a micro level: identifying potential customers, determining actual and potential customer needs, development and implementation of advertising and promotion programs, customer service and sales, obtaining information form customer contact points, increased confidence and customer loyalty.

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