Further Thoughts on CRM: Strategically Embedding Customer Relationship Management in Organizations

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Further Thoughts on CRM:

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in Organizations

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Abstract

Skepticism and disappointment have replaced the initial enthusiasm about CRM. The disappointing results of CRM-projects are often related to difficulties that managers encounter in embedding CRM in their strategy and organization structure. In this article we present a classification scheme on how CRM can be strategically embedded in organizations using the value disciplines of Treacy and Wiersema. We use the findings from three case studies to illustrate our classification. Based on these case studies and interviews with managers we distinguish between strategic and tactical CRM, and derive important issues that managers should consider before successfully implementing CRM.

Introduction

One of the major developments within today's business practice is the increasing interest in Customer Relationship Management (CRM). Instead of a focus on the acquisition of new customers, marketers are moving their attention to retention of customers and the maximization of the customer lifetime value.[1] To make this transition marketers have invested substantial amounts of money in CRM-projects to achieve the promised higher customer loyalty and the resulting higher profit levels.[2]

Recently however, skepticism has replaced the initial enthusiasm about CRM, because the rate of success of CRM-projects varies between 30 and 70%.[3] Not surprisingly, a number of authors has expressed their doubts about some of the key premises of CRM. For example, Dowling claims that CRM-programs should not be expected to result in significant changes in customer purchasing patterns in fast moving consumer good markets.[4] Likewise, Reinartz and Kumar declare that in consumer markets the promised positive relationship between customer loyalty and profitability is often absent.[5] Most managers are not aware of the fact that CRM does not always have a positive impact on customer performance. Not surprisingly, they are often disappointed about the implementation results of their CRM-programs.

The failure of many CRM-projects can however also be blamed on the difficulties that managers encounter in embedding CRM in their strategy and organization. To date the body of research on CRM has ignored these strategic implementation issues.[6] The purpose of our paper is to fill part of the gap in extant knowledge on CRM. We provide and discuss a classification scheme on how CRM can be strategically embedded in organizations. The practical applicability of this scheme is illustrated with the results of three CRM-implementation case studies. Based on these case studies and interviews we discuss important issues that managers should consider before implementing CRM.

Customer Relationship Management

The thinking reflected in CRM is based on three aspects of marketing management: (1) customer orientation; (2) relationship marketing, and; (3) database marketing. These aspects join in CRM due to developments in Information and Communication Technology.[7] Dowling provides an overview of CRM-applications in practice.[8] He distinguishes between two types of CRM-practices: (1) programs that aim to build intimate relationships with customers, and; (2) practices that use data-mining techniques to improve targeting, cross selling and market research. The first CRM-practice focuses on satisfying customers and fulfilling customers' needs. Thereby it is expected that the resulting increase in customer loyalty will enhance profits. The second CRM-practice focuses on a more efficient and effective use of marketing tools and is sometimes referred to as 'cost reduction management'.[9] An example is more efficient targeting of direct mailings, which can lead to substantial reductions in marketing costs.[10] The distinction between these two CRM-practices can be very useful to explain the success or failure of CRM-projects. However, for a better understanding of the implementation of CRM one also needs to consider how CRM is strategically embedded within the organization.

Strategic Embeddedness of CRM

Our observations in practice show that CRM-implementations differ with respect to their embeddedness in business strategy and organization structure. We distinguish between strategically embedded CRM-implementations and tactical CRM-implementations. Strategic embeddedness of CRM means that the business strategy determines what type of CRM-program is implemented, how this program is implemented, and what the intended outcomes are. CRM can be strategically embedded in two of the three value disciplines of Treacy and Wiersema: (1) operational excellence, and; (2) customer intimacy.[11] If operational excellence is practiced, firms aim to have lean and mean processes. The resulting delivered values to customers are low prices and convenience. Firms applying customer intimacy focus on knowing the customer and building close relationships with these customers.

CRM is often solely related to the customer intimacy value discipline.[12] Our observations reveal however that firms that strategically embed CRM either strive after customer intimacy or operational excellence. Their CRM-approach is different though. If CRM is embedded in a customer intimacy strategy CRM is relationship-oriented. Firms embedding CRM in a operational excellence strategy focus on cost-reductions and raising the quality of the customer interaction process through process improvements. Tactical CRM-implementations are not embedded in business strategy and focus on efficient selling of products and services. Statements in practice, such as “that CRM is not more than the application of a new statistical software package”, refer to this type of CRM-approach.

The above reasoning results in the classification scheme of CRM-strategies displayed in Figure 1. For a better understanding of the resulting CRM-approaches we present the findings of case studies with an insurance provider, a private investment banker and a holiday resort provider. The insurance provider and the private banker have strategically embedded CRM within their respective strategy of operational excellence and customer intimacy. The holiday resort provider uses a tactical CRM-approach. All three firms are satisfied with their CRM-implementation.

-- Insert Figure 1 about here --

Case 1: Operational Excellence and CRM

The insurance provider has evolved from a regional agricultural cooperative insurance provider to a national player with top brand awareness in The Netherlands. Traditionally, this firm is a direct writer. Hence, it had already experience with direct customer contacts and direct marketing principles. Given this background and its position in the market the firm chose a strategy of operational excellence. Thereby it aims to outperform competitors on the combination of price, convenience and speed. This operational excellence strategy affects all processes and activities within the organization and therefore has important implications for the application of CRM. According to one marketing executive "the application of CRM should be in line with and support the operational excellence strategy. Therefore, CRM should reduce marketing costs, which can subsequently be used to improve the firm's value proposition in the market. At the same time CRM should improve the interaction process with the customer in such a way that the customer's convenience is enhanced". The improved value proposition and quality of the customer interaction process should lead to repeated transactions and higher cross-selling ratios. Thus, the insurance provider chose to apply operational excellent CRM.

In line with their CRM-approach the management developed a CRM-infrastructure. This infrastructure is shown in Figure 2. In line with both Dowling and Winer the insurance provider's CRM-efforts were driven by the customer database.[13] This database has a number of functions. First, information from this database, such as customer profitability and sales levels, is used as input for the management information system (MIS). Second, data-mining tools are used to improve the targeting of direct marketing actions (i.e., telemarketing, direct mailings etc.). Third, analytical CRM is used to develop business rules, which are subsequently used to fine-tune customer interaction management. For the insurance provider analytical CRM mainly concerns customer segmentation. This segmentation is behavioral based and customer needs are not considered.[14] For each segment specific marketing strategies have been formulated. For example, for a segment with limited growth potential the provider formulated a cost reduction strategy.[15] Finally, the database is used to personalize communication in the case of direct contacts with the customer. For example, the memorized personalized web page is directly linked to the customer database, while the database also has a facilitating role in the call center. The personal web-page should lead to lower interaction costs and higher customers' perceived levels of convenience and service speed.

-- Insert Figure 2 about here --

An important issue that the management faced was whether the behavioral-based segmentation should impact the organization structure. CRM suggests that marketing should be organized around customer segments.[16] The insurance provider was however a product management organization. A major disadvantage of this organization is the absence of coordination between product managers. This led to customer irritation. For example, customers received several mailings for different products in the same week. To resolve these problems the management of the insurance provider considered changing from a product management towards a customer management structure. This option was not chosen for several reasons. First, insurances are relatively complex products for which product specialists are needed. Second, an organization around customers would add to the complexity of the organization and raise costs, which was not in line with the operational excellence strategy. Instead the management chose for a structure in which the database-marketing department coordinates all communications (i.e., direct mailings, web pages) with the customer, while the content is developed in consultation with the relevant product managers. In other words, the database-marketing department became the linking pin between the customer and the product managers. The organization structure is shown in Figure 3.

-- Insert Figure 3 about here --

Another important issue in the implementation of CRM is the human factor.[17] The management acknowledged the crucial role of employees in implementing CRM and encouraged employees to follow several training programs. According to a marketing executive however, “the required changes have not been achieved yet”. One problem that the management encountered was that employees felt that they have fewer opportunities to seek creative solutions due to the focus on standardization in the CRM-process to achieve consistency with the strategy of operational excellence. To date, the insurance provider has not resolved this issue.

A final issue that the management encountered was the consideration of the efficiency and effectiveness of CRM-instruments. As already noted the insurance provider uses direct mailings. However, it also applies a loyalty program and a relationship magazine. The loyalty program concerns a usage reward system in which members receive price reductions based on the number of insurances purchased and the relationship duration. This reward program should enhance the customer’s value perception. In the magazine short articles are published on financial, health and lifestyle topics. Through this magazine the management aims to build customer relationships. The application of this instrument is however inconsistent with the strategy of operational excellence. As a result there is an ongoing debate on the continuance of the magazine.

Case 2: Customer Intimacy and CRM

The private investment banker is one of the largest in Europe. Two decades ago other financial service providers started entering the market and competition intensified. As a result the banker’s market share substantially decreased. This urged the firm to reconsider its market position. The private investment banker faced the following important challenges:

(1) The firm was product-oriented and functionally organized;

(2) All customers were treated in the same way;

(3) The information available in the customer database was not used;

(4) There was more attention for new customers than for current and defecting customers;

(5) The assortment of investment products did not match customer needs;

(6) The profitability of the marketing department was too low.

To overcome these challenges the management initiated a transformation program to substantially change the execution of marketing activities, the structure of the organization and the organization’s culture. The management started with a reconsideration of the firm’s strategy and it’s positioning in the market. The banker’s strategy was traditionally focused on product leadership. Customers were served via the direct channel and did not receive much personal advice. As a result customers perceived the firm as “selling high quality products, but offering little personal service and attention”. Therefore a repositioning was needed. The management decided to move into the direction of traditional private banking, in which personal service and advice are important. In this approach the development of customer relationships is crucial. These relationships should go beyond repeat purchasing. They entail customer involvement and intimacy. To achieve this the private banker moved from a strategy of product leadership towards a strategy of customer intimacy. The management acknowledged that the development of an appropriate CRM-system was crucial to achieve customer intimacy. Moreover, they were aware that such a relationship-oriented CRM-approach included much more than a new IT-infrastructure. According to one marketing executive “it would affect the organization structure, its culture and employee competencies”.

The transformation process started with an extensive study of customers and customers’ needs through expert interviews, focus group discussions and large quantitative surveys. Based on the results the management decided to develop and implement a customer need segmentation. Three segments (i.e., self-made man, strategy maker, and security seeker) were distinguished which differed with respect to customers’ attitudes towards investment banking. These attitudes were matched with information in the customer database to identify multiple observable measures indicative of the customer’s attitude towards private banking. For example, customers investing money originating from a heritage (information retrieved from the database) were less risk averse (information obtained from the segmentation study) than customers investing money from a regular income. In this way identifiable and accessible segments were established based on customer needs.

The management was aware that customer profitability should also be considered. To this end the amount of capital invested per customer was used to assess the profitability of each segment. The outcomes of the profitability analysis made the management decide that within each segment different tiers of customers with different profitability levels should be distinguished. For each of these tiers different service concepts were developed and implemented. An additional distinction was made between starters and non-starters. The resulting segmentation scheme is shown in Figure 4.

-- Insert Figure 4 about here --

To cater to customer needs the management of the private investment banker decided to organize around segments. For each segment a client team was formed. Each client team developed a customer strategy based on customer needs, received its own budget and was made accountable for the resulting profit. The management acknowledged that is was also necessary to focus on attracting new customers. To this end a separate team was formed that focused on customer acquisition for all three segments. Besides these four teams (including the acquisition team) the management decided to form two specialist departments: marketing and business support. These departments were responsible for policies that go beyond the four teams, such as branding and the IT-infrastructure. The resulting organization structure is given in Figure 5.

-- Insert Figure 5 about here --

In order to win support from employees for the relationship-oriented CRM-approach the management decided to continuously involve employees in the change process. The management also assessed whether individual employee's attitude, capabilities and interests fitted with the new strategy and determined to which client team the employee could best be assigned. Prior to the transformation process employees experienced no shared responsibility, relatively high internal rivalry and an internal focus. Within the client teams a shared interest in the customer was essential. To achieve a customer care focus, the leaders of each team became the personal coach of each employee within their team. To create shared interest the management also decided to make each team accountable for its profits.

According to the management customer intimate CRM goes beyond sending direct mailings aimed at selling new services. Instead the focus of CRM instruments is on maintaining and developing close relationships with customers. As a consequence, the private investment banker applies a relationship magazine that provides information on economic and financial topics. It also organizes periodic meetings with their best customers to discuss financial and investment matters.

Case 3: Tactical CRM

The third case concerns one of the largest European Holiday Resort providers. This provider assumes that customers will favor resorts that offer most quality and performance. Hence, it has heavily invested in resorts, which provides high quality facilities such as swimming pools, restaurants, kindergartens and shops. As a consequence, customers perceive the quality of the resorts as excellent and they usually feel a high tendency to return. Out of the summer season the provider was confronted with resorts that were not fully occupied. To raise the rate of occupancy the management provided potential customers with last minute offerings through direct mailings. These mailing were untargeted and resulted in huge wastes. To improve the efficiency and effectiveness of the direct mailings the management decided to set up a CRM-department. The department's activities focused on: (1) developing and applying data-mining techniques; (2) maintaining the customer database, and; (3) integrating the database with activities of the customer contact center. From these practices it is clear that the holiday resort provider chose to apply the tactical approach of CRM. Not surprisingly, the holiday resort provider structured its CRM-activities around its customer database. This is shown in Figure 6.

-- Insert Figure 6 about here --

Employees in the customer contact center use the customer database operationally. Analytically the database is used for data-mining activities that focus on response optimization of the direct mailings sent to customers to raise occupancy levels. The CRM-department uses a standard statistical software package and hired a prior employee of a statistical software provider to apply the program. Already in the first year of their tactical CRM-implementation the holiday resort provider achieved a substantial reduction in marketing costs due to improved targeting and a reduced waste associated with direct mailings. More importantly, it resulted in higher rates of occupancy.

However, at the same time the holiday resort provider was also applying an expensive loyalty program without considering the effectiveness of it.[18] The application of a loyalty program was not in line with their main CRM-objective, which focused on selling efficiency. Only recently the management of the holiday resort provider evaluated the loyalty program using the customer equity framework.[19] They found that their program did not affect customers' decisions to return to the holiday resort. Customers' retention decisions were predominantly based on the delighting experiences during their prior stay in the resort. Moreover, the majority of the loyal customers was not aware of the loyalty program. Not surprisingly this resulted in a debate about the continuation of this program.

Further Discussion of CRM-strategies

Based on the three case studies, additional interviews with managers and prior literature on CRM, we complete our classification scheme on the embeddedness of CRM in organizations. In Figure 7 we present the full characteristics of the strategic and tactical embeddedness of CRM. These characteristics relate to aspects such as the strategic orientation, organization structure and culture, CRM-focus, CRM-tools and role of IT in CRM-implementations.

-- Insert Figure 7 about here --

Operational excellent CRM has a strategic orientation that focuses on business processes. The organization is relatively process driven and the organization culture is market-oriented. On the customer level there is an emphasis on repeated transactions. Important CRM-metrics are customer perceived value (i.e., price/quality, convenience and speed) and customer profitability. Note that there is less interest in the lifetime value of customers. Instead there is a focus on the optimization of current customer profitability. As CRM is strategically embedded, IT is a facilitator of the CRM- strategy. Still, due to large investment in IT-systems firms can fall in the trap of giving too much attention to IT.

The strategic orientation of customer intimate CRM centers around the customer. This orientation should lead to a customer-driven organization structure and culture. The aim of CRM is to develop customer relationships. On the individual customer level, the extent of customer relationship development activities depends on the expected lifetime value of customers. Important metrics are customer commitment and customer lifetime value. Important CRM-tools are affinity type of programs (i.e., relationship magazines) and individual contact with customers. Through the use of a customer need-driven segmentation, these contacts are, to a large extent, personalized. Similar to operational excellent CRM, IT also has a facilitating role in customer intimate CRM. Also note that for operational and customer intimate CRM alike, top management commitment is high.

Tactical CRM-approaches are not embedded in business strategy and organization. These approaches are applied in more transaction-oriented organizations and top management support is low. The focus of tactical CRM is on efficient selling of products and services. Important CRM-tools are direct mailings and telemarketing. Data-mining is very important in this CRM-application. Not surprisingly, IT is often the driving force behind tactical CRM.

CRM-implementation Issues

Based on our findings we have formulated eight issues that are essential for successful CRM-implementations:

1. When CRM is applied strategically, the implementation should be in line with the chosen business strategy. The case studies clearly show that the type of CRM-approach depends on the chosen strategy. In the case of the insurance provider CRM was meant to improve cost effectiveness and convenience to reinforce the operational excellence positioning. In the case of the private investment banker the CRM-implementation clearly focused on relationship development, which was in line with the formulated strategy of customer intimacy.
2. Firms should consider how and whether they embed CRM in their business strategy. It may be argued that CRM-systems are only successful when they are strategically embedded. Our position is that in some cases firms should only use CRM at a tactical level. Firms can realize efficiency gains with a relatively straightforward CRM-application. This is clearly shown by the CRM-implementation at the holiday resort provider. However, all firms should make a cost-benefit analysis before implementing CRM. This can prevent firms from making substantial investments in CRM that in the end do not pay off. Moreover, the CRM-implementation approach should be consistent with the chosen strategy and business objectives. For example, despite the focus on selling efficiency, the holiday-resort provider also applied a loyalty scheme that was far from effective.
3. CRM has important implications for the organization structure. All three cases revealed that the adoption of CRM resulted in a new organization structure. However,

the structure depends on the CRM-approach. In the case of the insurance provider the change in the organization structure was focused on cost reductions and improving the customer interaction process. As a consequence the management chose not to organize around customer segments. This in contrast to the structure of the private investment banker around customer groups. The holiday service provider sufficed with setting up an independent CRM-department to carry out straightforward tactical CRM-activities. Thus, although CRM-implementations should consider the organization structure, the nature of change depends on the CRM-approach.

4. The implementation of strategic CRM-approaches also requires a change organization culture. This is illustrated by statements of some managers "that the human factor is one of the most important determinants of CRM-performance". In case of the private investment banker a customer-oriented culture was needed to facilitate the implementation of a relationship-oriented CRM-approach. In the insurance provider case a cost-oriented culture was needed to enable employees to work more efficiently and more customer-oriented.

5. Implementation of the strategically embedded CRM-approaches is more time-consuming than the implementation of the tactical CRM-approach. The insurance provider and private banker needed approximately one and a half years to develop and implement their CRM-strategy and both firms are still learning and fine-tuning their CRM-approach and implementation. The long time horizon of CRM-implementations can also explain why some managers are dissatisfied about CRM-performance. Strategic CRM-implementations do not pay-off immediately. A long-term perspective is needed to develop and implement a strategically embedded CRM-

approach. Tactical CRM-approaches are much easier to implement and produce positive results in a short time.

6. For strategically embedded CRM top management support is essential.[20] Top management support not only helps to transform the organization structure and culture, but also ensures that CRM-projects that experience unforeseen temporary setbacks, continue.
7. Dowling already noticed that firms should have realistic expectations on the consequences of CRM. These expectations should be based on analytical models that shows how managerial action impacts the marketing cost structure and customer revenues.[21] The holiday resort provider's application of a loyalty program clearly shows the application of analytical models is indispensable.
8. Finally, firms often consider CRM-software the key to success in CRM-implementation. Although a substantial part of the CRM-budget is allocated to software, managers should not fall in the trap of a myopic focus on software. Especially in customer intimate CRM, software facilitates customer relationship maintenance and development. For operational excellent CRM, software should lead to cost reductions and improve customer interactions. When tactical CRM is applied, CRM-software should primarily result in cost reductions.

If a CRM-implementation program can survive the scrutiny of these issues then we believe that a CRM-program has a larger probability of success.

FIGURE 1

A Generic Classification Scheme of CRM-implementation Strategies

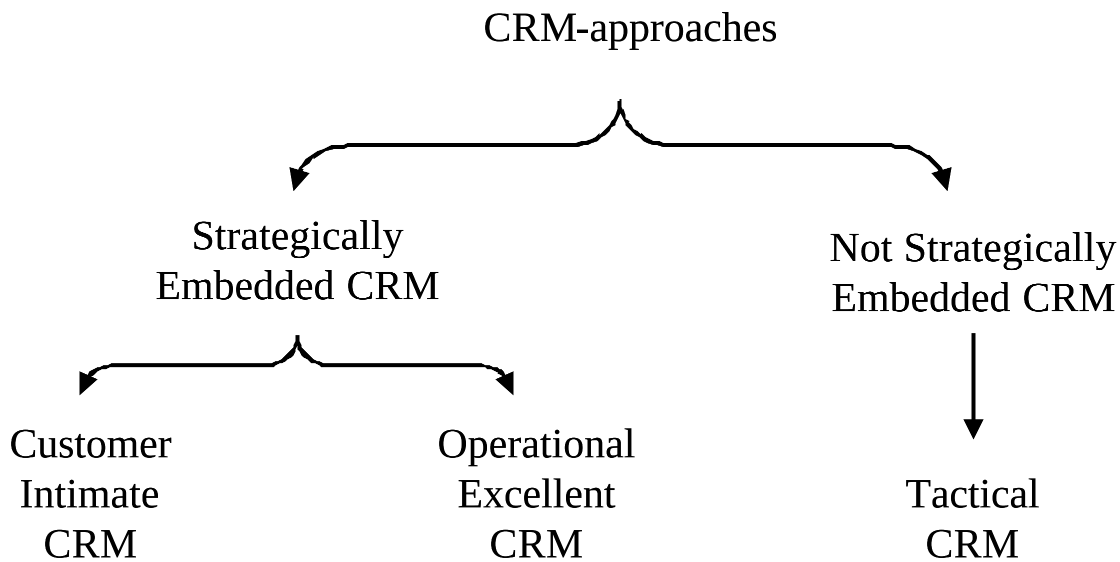

FIGURE 2

Operational Excellent CRM at the Insurance Provider

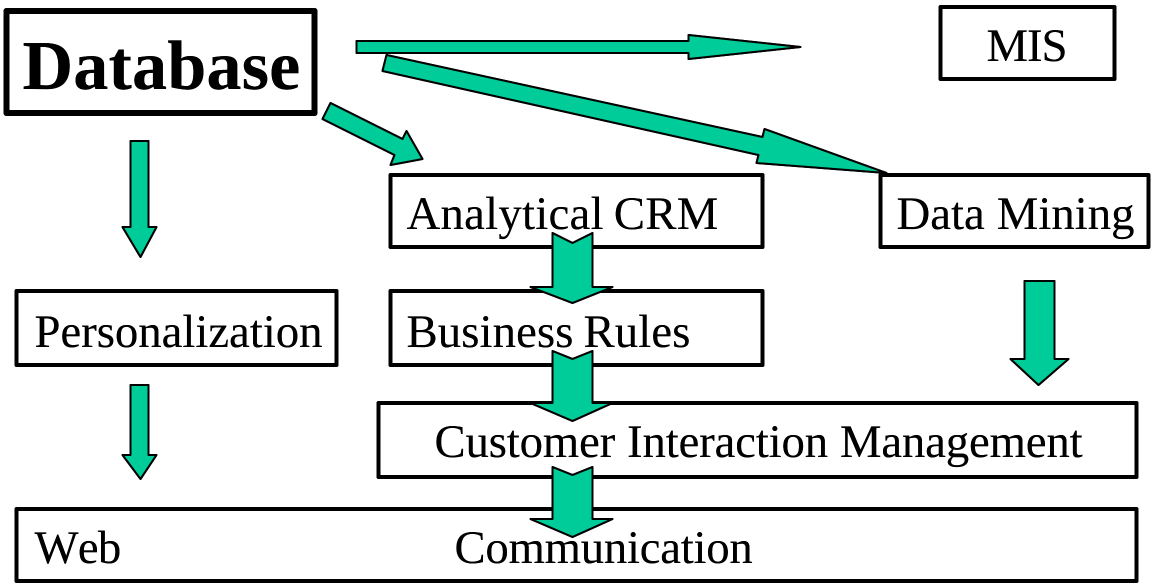

FIGURE 3

The Organization Structure of the Insurance Provider

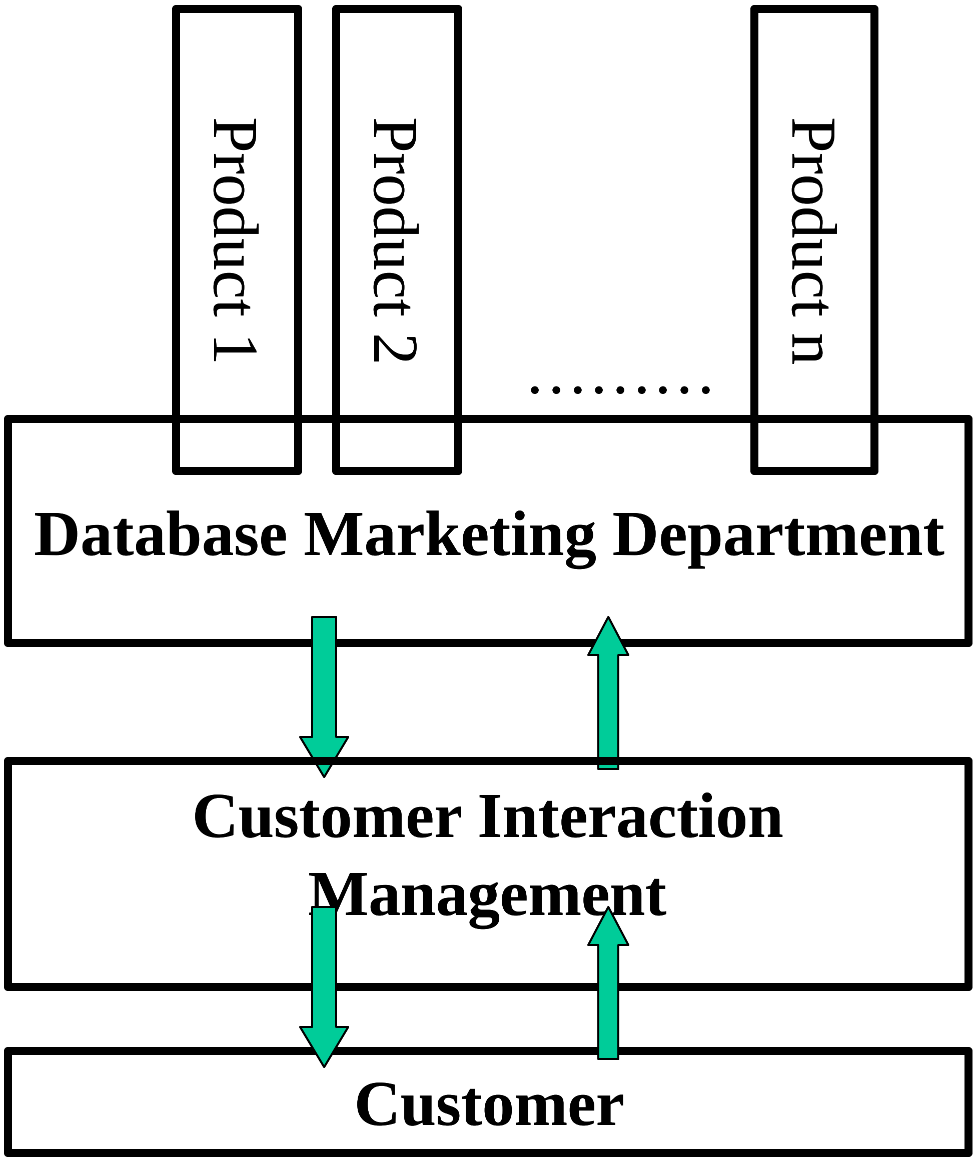

FIGURE 4

The Segmentation Scheme of the Private Investment Banker

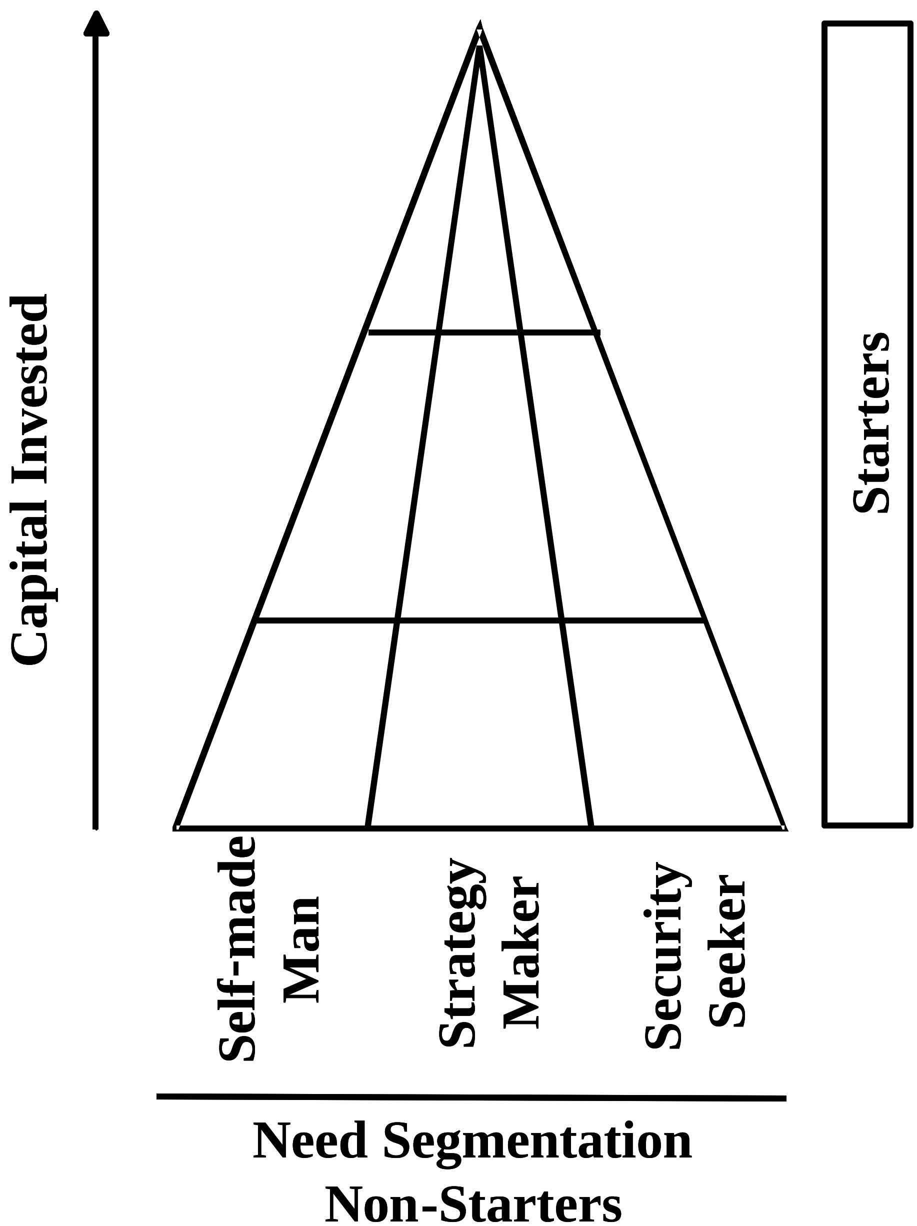

FIGURE 5

The Organization Structure of the Private Investment Banker

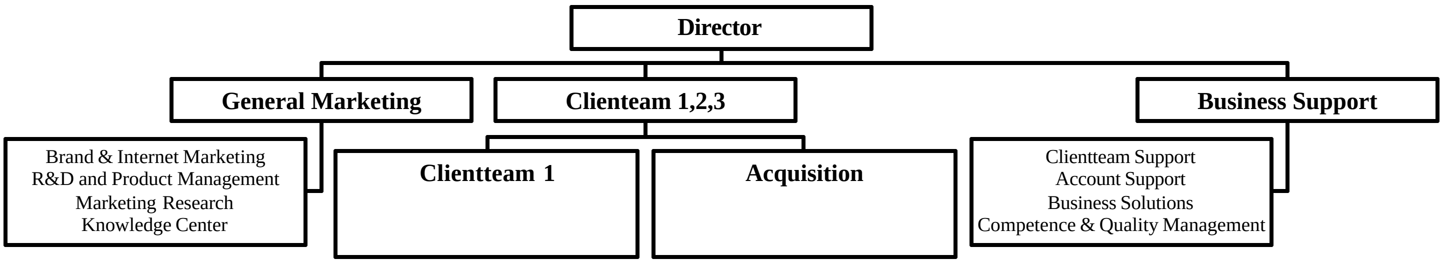

FIGURE 6

Tactical CRM at the Holiday Resort Provider

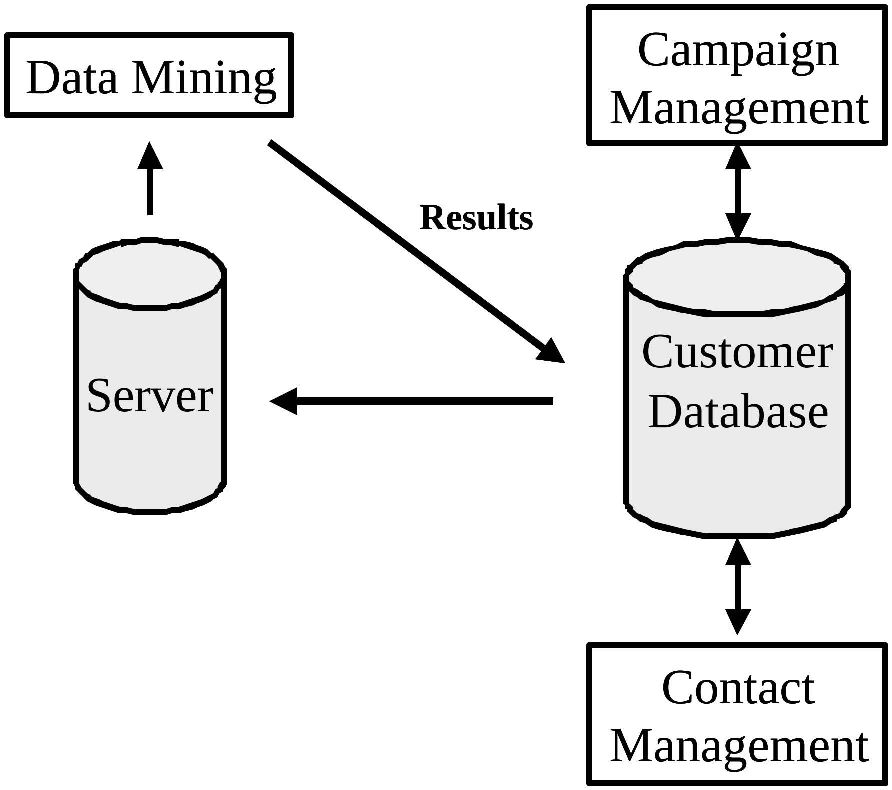

FIGURE 7

A classification scheme of CRM-implementation strategies

		CRM-STRATEGY	
Characteristics:	**Operational excellent CRM:**	**Customer intimate CRM:**	**Tactical CRM:**
- Value Discipline:	Operational excellence	Customer intimacy	Not applicable
- Strategic orientation:	Process	Customer	Product / Sales
- Organization structure:	Process teams	Customer teams	Functional
- Organization culture:	Market-oriented	Customer-oriented	Transaction-oriented
- Top management commitment:	High	High	Low
- CRM-level:	Strategic	Strategic	Tactical
- CRM-focus:	Repeated transactions	Relationships	Selling
- CRM-objectives:	Cost reduction and quality of customer interaction process	Relationship maintenance and development	Marketing efficiency and selling
- Customer segmentation:	Behavior (profit) based	Need behavior (profit) based	Response based
- CRM-tools:	Direct mail, reward programs, Internet	Affinity programs, customer contacts	Direct mail, telemarketing
- CRM-metrics:	Customer perceived value, customer profitability	Commitment, customer share customer life-time value	Direct mail response (incl. profit)
- Emphasis data-mining:	Moderate / high	Low / moderate	High
- Role of IT:	Facilitating	Facilitating	Driving
- Time horizon:	Mid-term	Long-term	Short-term

Notes

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[21] See for example: Rust, Zeithaml and Lemon (2000). See also: R.N. Bolton, K.N. Lemon and P.C. Verhoef, “Cusams: A Decision Support Model for Customer Asset Management in Service Industries”, *Working Paper*, VanderBilt University (2001).

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