CRM AS STRATEGY: AVOIDING THE PITFALL OF TACTICS

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Customer Relationship Management (CRM), as a concept, has received increased attention as technological advances both motivated and enabled businesses to focus more on customers. CRM, when effectively deployed, helps businesses succeed in today's customer-centric world. Despite the considerable academic and practitioner interest that CRM programs have attracted in recent years, a large proportion of them are failures. This article presents a rationale and a model for conceptualization and formulation of CRM strategies rather than singular tactics.

INTRODUCTION

The process of acquiring, serving, and retaining customers is critical for business success in today's competitive environment. To accomplish these goals, firms need superior strategies that are supported by highly effective and efficient business processes. In turn, these processes focus on continuous improvements in how customers are served, thereby leveraging the firm's competitive advantage. This is the essence of customer relationship management (CRM). Thus, CRM is not a tactic or gimmick; it is a long-term strategy for sustainable market leadership stemming from carefully cultivated and strong relationships with customers.

CRM is defined by Bland (2003) as the bundling of customer strategies and processes, supported by means of relevant software, for the purpose of improving customer loyalty and thus providing a competitive edge. It is a business strategy for the enterprise, i.e., a well-conceived, well-integrated and well-executed program that drives shareholder value. It embodies a strong commitment to gather customer intelligence, create value for customers, and strengthen competitive advantage.

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Traditionally, marketing activities relied on a mass-audience focus (e.g., heavy reliance on network advertising and large market segments) to achieve gains in market share. The recent paradigm shift toward CRM has re-oriented marketing activities to emphasize relationships with individual customers, as a means of developing sustainable competitive advantages (Bauer, Grether and Leach 2002). The idea is to build long-lasting relationships with each customer (Thakur and Summey 2005; Bauer et al. 2002). If a firm manages its customer relationships better than its competitors, it can not only succeed at retaining existing customers, but attract new customers as well (Thakur and Summey 2005).

Critical elements of CRM strategy force the firm to identify, segment, and profile customers based on characteristics such as profitability, lifetime revenue potential, cost to service, interests, buying habits, and service requirements. These activities encourage a laser-type focus on retaining the most valuable and profitable customers.

All CRM applications are not uniformly successful. Indeed, several researchers have observed that a large proportion of such applications have been failures. Those observations led to several studies investigating why CRM sometimes had not worked. According to Newell and Godin (2003), CRM failure broadly stemmed from the fact that most firms were still product focused, not customer focused. These authors asserted that any business could discover why, when, how, and where customers wished to be contacted, simply by identifying customers and listening to them.

CRM commands considerable attention and interest in both academic and managerial settings. Leading firms realize that a comprehensive understanding of the strategic potential of CRM is very important for long-term success, because CRM's roadmap is based on solidifying long-term customer relationships. Many operationalizations of CRM, however, continue to reflect a tactical (as opposed to strategic) character. The implications of the tactical vs. strategic CRM focus awaits detailed research exploration at this point (Gopalkrishnan and Bejou 2004). The objectives of this study are to examine the existing state of CRM, discuss why companies should approach CRM more as a strategy than as a tactic, and present an approach to accomplish that objective.

THE EXISTING STATE OF CRM

CRM has come a long way from the early ideas promoted so well in the trade books such as *The One to One Future* (Peppers and Rogers 1993). Gordon (2001, p. 6) states that "Today, most managers believe that CRM is fundamentally important to the future of their business." Companies are also investing heavily in technologies to better understand customers, and to take advantage of the many customer interaction opportunities (or touch points) that CRM affords. Unfortunately, however, this has led some to interpret CRM as a tactical foray into technology (Gordon 2001; Bannon 2001; Greenberg 2001). Although firms have committed large amounts of resources to CRM technology, studies have shown that nearly 60 percent of CRM projects fail to deliver a significant return on investment (Rigby, Reichheld and Dawson 2003; Kale 2003; McKim 2002).

Overall then, a common (and tactical) misconception equates CRM with technology. In other words, this notion boils down CRM to a hardware/software tool that can be purchased and implemented without much effort. This mindset is at the heart of many CRM failures, because those applications fail to advance to customers the real benefits that are attributable to CRM. On the other hand, companies with CRM success stories have had a clear strategic orientation. Companies that have managed their CRM programs in a manner responsive to customers' needs and wants and how those needs and wants change with time have been found to be more successful than those who have not. They view CRM as an integral part of formulating a clear business strategy that balances and integrates three fundamental elements within the firm in order to understand customers better: technology, process, and people (Crosby 2002; Chen and Popovich 2003; Deck 2001). Thus, CRM operates best when it is a business strategy that is enabled by technology.

In a survey of Fortune 500 firms by Cottrill (2002) and Patton (2001), 75 percent of the executive participants felt that flawed execution plans and a lack of long-term CRM vision were leading causes of CRM failures. Another study by Accenture showed that the gap between a firm's vision and the execution of that vision prevented CRM from reaching its full potential. That study also found CRM projects often focused on mechanics, specific tools, and technologies (i.e., tactics), to the detriment of the strategic goal: to enhance the value of customer relationships (Freeland, Eisenfeld and Greshman 2002).

More often than not, the lack of planning and specificity dooms CRM initiatives. Successful CRM is about putting strategy before software (Selland and Pockard 2003). Thus it can be said that the absence of a strategy orientation is the chief reason for CRM failures, something that many firms have yet to realize. If the failure of a CRM project stems from poor management and leadership skills, lack of coordination among various departments, absence of motivation, or weak or inappropriate project staff, it is likely that CRM implementation was driven by a tactical, rather than strategic orientation.

Although strategic planning is critical to a firm's CRM program, some managers still consider CRM as largely tactics-driven. Research has reaffirmed that CRM is a strategy whose objective is to link all aspects of a firm with a common focus: building profitable long-term customer loyalty (Crosby 2000). This is a monumental task, requiring comprehensive analyses of business operations, especially in terms of how the enterprise views its customers, employees, and partners. Subjecting the firm's customer focus, operations, systems, and culture to such intense scrutiny is a key part of developing CRM strategy (Crosby 2000). In other words, if a firm experiences difficulty in tackling the CRM jigsaw puzzle, perhaps there is no coherent strategy for moving the company ahead (Gordon 2001). In such cases, the firm should rethink the objective of its CRM program and re-formulate it in strategic terms.

IMPLEMENTING CRM AS A STRATEGY

At its core, CRM embeds elements of marketing, sales, service, operations, and information technology. Its multi-disciplinary, overarching purpose is to comprehensively understand the needs and behaviors of customers in order to successfully attract and retain them. A strategic focus here is to develop strong and long-term customer relationships (Ling and Yen 2001). Therefore, CRM has the highest potential for success when the implementing firm's orientation to CRM is a strategic one, with an emphasizing the understanding of customers and strengthening of their relationships with the firm.

"To render its CRM strategy truly effective, the firm must decide what kind of customer information it is looking for and what it intends to do with that information" (Deck 2001). Many financial institutions, for example, track customers' life stages so that it is easier to market banking products at appropriate times. Firms should carefully evaluate alternative approaches to gathering information about their customers as well as where and how the data are stored, managed, and used (Deck 2001).

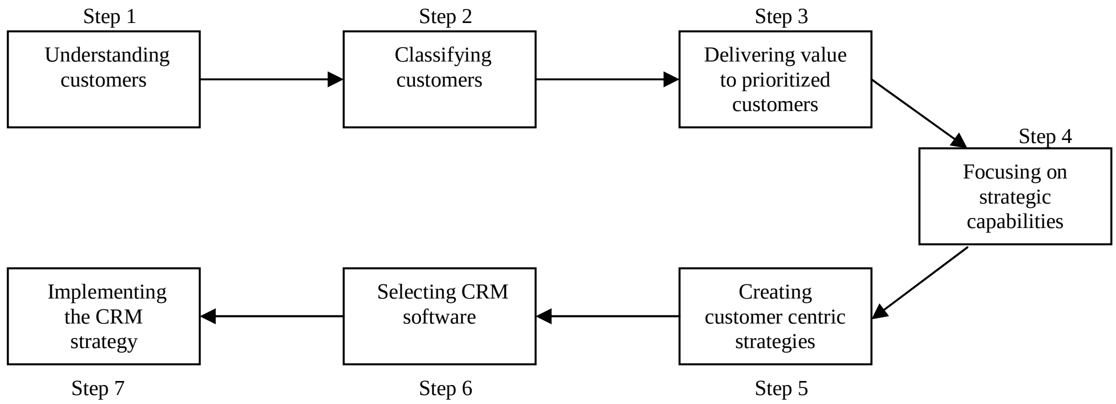
There are many technological components to CRM, but thinking about CRM in primarily technological terms without having a strategy for it would be a mistake. It is more useful to characterize CRM as a complex process that integrates information about customers, sales, market awareness, and market trends. Working from that perspective, a strategic orientation to CRM that helps a businesses leverage technology and human resources to gain insight into customer behaviors is more likely to occur. The business can use that knowledge to create sustainable competitive advantage for the firm, and long-term value for the customers (Ling and Yen 2001).

To implement CRM in a manner that accomplishes the organization's customer relationship goal, we advocate the seven-step process shown in Figure 1. Those steps are discussed in detail next.

The *first step* involves *ensuring that customers are the number one focus* of a CRM strategy. That is, the firm should structure CRM strategy around customers rather than around products or geography. Additionally, the top management should have "hands on" involvement in the CRM process. For example, top management should assure that frontline employees have real-time access to information about the firm's most profitable customers and that they serve such customers in a manner that consistently exceeds expectations.

Similarly, frontline employees should have the ability to alert top managers about significant vignettes in their interactions with customers. The goal is to assure free and real-time flow of information within the firm, so that everyone knows the identities of profitable customers. Under these circumstances, the organization's effort to provide such customers with exceptional service is more likely to appear seamless and natural. Moreover, by integrating

FIGURE 1
CRM Implementation Process Model



relationship-building opportunities into the firm's routine operations, the framework to develop sustainable competitive advantages in the marketplace is reinforced.

The *second step* is to *classify customers based on their potential importance.* For example, ordering customers into top, middle, and low categories based on their computed lifetime value to the firm. It is desirable for the firm to focus a greater share of attention on customers with high lifetime value and a high willingness to engage and continue in a mutual gain relationship with the firm (Gordon 2001).

Peck et al. (1999) and Newell (2000) argue that many organizations find it beneficial to distinguish between two types of customers, those who engage in transactions and those who pursue relationships. Then they focus primarily on the relationship-oriented customers. Transaction customers are those who are highly predisposed to brand-switching (i.e., little or no loyalty). Relationship-oriented customers, in contrast, are those with far more potential for loyalty (Amofah and Ijaz 2005). Such customers are often willing to pay a premium for a range of reliable goods or services. Newell (2000) describes three distinct types of relationship customers: top group (upper 10 percent), middle group (next 40 to 50 percent) and lower groups (bottom 40 to 50 percent).
The top group, the upper 10 percent, consists of highly loyal and profitable customers. CRM can be an effective instrument to retain them (Newell 2000; Peck et al. 1999). The middle group, the next 40 to 50 percent, contributes good profits and shows good potential for future growth and loyalty. Typically, such customers are likely to allocate a portion of their business to competitors. The idea is to use CRM strategy to target top and middle group customers effectively since they represent the greatest source of potential growth.

The lower group, the bottom 40 to 50 percent, includes those who are only marginally profitable. Some may move up the ladder, but the expense and effort involved in targeting the lower group hinders effective targeting of the more important top and middle groups (Newell 2000; Peck et al. 1999). To the extent that such customers may be counter-productive in terms achieving corporate goals, the firm may even consider strategies that discourage them from attempting to form relationships.

Having identified and classified customers, a key priority is to maintain and build long-lasting relationships with those they consider more valuable. The decision to select a subset of consumers for this task is an important strategic decision for the firm (Gordon 2001).

The *third step* is to *deliver value to the prioritized customers*. Value delivered to the customer and the subsequent customer experience is a key driver of successful CRM strategy. Value is ultimately defined by the customer, whereas customer experience includes the entire consumption cycle of shopping, buying, receiving, and consuming. Firms will find it advantageous to measure both customer value and satisfaction in each stage of the consumption cycle, at each touchpoint, and in each customer segment. The aim is to identify any shortfalls before applying training, process optimization, or technology within CRM initiatives.

A company can best maximize the delivery of value to its customers best if they know who their top, middle, and lower group customers are (Gordon 2001), an approach feasible only if it gathers pertinent customer information on a systematic and ongoing fashion. Both corporate and individual customers have different needs at different life stages. For example, Amazon.com has institutionalized customer knowledge and care. This firm tracks the number of visits a customer makes and pro-actively uses this information to better serve customers and to subsequently foster loyalty. This process not only helps consumers make purchases from the site, but also becomes a basis for prioritizing them. The more a customer is willing to engage in an information-based relationship, the more valuable the information the company can obtain. It is an interactive process of information acquisition, service provided, and value enhanced for both parties.

The *fourth step* in the process is to *focus on strategic capabilities*. "Managers sometimes avoid planning because of fear that the plan may be rapidly outdated, or that some of their strategies will turn out wrong" (Gordon 2001, p. 7). This step in the CRM strategy process requires the firm to engage in a continuous and extensive planning process wherein they review the company's capabilities and the direction it wants to take them. CRM strategies should be planned and those plans framed and contrasted in terms of strategic capabilities and limitations. Ideally firms should formulate their strategies on the basis of their capabilities in the areas of process, technology, people, and knowledge.

Once a firm understands its strategic capabilities it can begin the *fifth step* in the process, *creating customer centric strategies*. The object of this exercise is to find win-win opportunities with customers. For example, the loyal and middle group customers identified above may be offered more opportunities to acquire value from the relationship and, thus, encourage loyalty to the firm. Overall, the customer relationship planning approach is conceptually relatively simple. The firm places itself in the customer's shoes and role plays consumption as viewed from the consumer perspective. This approach will enable the firm to not only understand what customers want but also to anticipate their future requirements. It also enables the firms to identify opportunities to establish or enhance value for both customers and their company. Firms then prioritize those opportunities, pick the best, and put them into play.

Creating winning, customer centric, CRM-based business strategies often requires that those strategies be developed with the following in mind: (1) planning based on what customers want rather than the firm's goals, and (2) listening to the customer rather than forcing the customer to listen to the firm. Once firms formulate customer centric business strategies, they can draw on technology to manage and control implementation.

The *sixth step* in the process is *CRM software selection*. In this task, the goal should be to support and promote an optimized sales, marketing, and customer service process. In other words, a firm's software choice should be based on both its current and future technology infrastructure. Selection of software should depend less on the basis of price than on the compatiibity of the software with the existing technology and hardware infrastructure within the organization. The firm should also ensure that the vendor for the software program is reputable, has had previous experience in their industry, and has the capability to meet any future needs.

Implementing the CRM strategy system is the *seventh step* in the process. CRM success depends on firms' commitments to strategic implementation. Implementing a CRM strategy requires three key enablers (1) qualified professional people, (2) well designed processes, and (3) leading edge technology. Successful implementation of CRM requires professionally trained people who are knowledgeable in both dealing with customers in a professional manner and in handling technology. A clear definition of a firm's business requirements and objectives is required to develop or streamline processes to deliver desired strategic outcomes. As an indispensable enabling ingredient of a CRM strategy, technology requirements need to be carefully thought out.

The completion of the seven steps above provides a foundation for implementing CRM as a strategy. That approach helps overcome the technology-based tactics method that most firms have used to implement CRM.

SUMMARY

Approaching CRM implementation as a strategy creates a basis for delivery of a value proposition utilizing purposeful business processes, advanced software applications, and supportive information technology. The strategy should specify objectives, segments, and customers, as well as indicate how organizational resources will be deployed in customer interactions (Thakur and Summey 2005; Kale 2003). At its best, "CRM should be considered as a business strategy that gives the means to fully understand customers' needs, desires, and expectations across several lines of business and at every point of customer interaction" (Meza 1998). CRM should be treated not only as a means for putting technology to work to ensure customers' satisfaction, but also an approach to effectively combine people, processes, and technology to produce a winning strategy for optimizing profitable returns.

A technology-based CRM approach is not a substitute for a sound customer-focused strategy. The company should have a CRM strategy planned before buying a software package. If a company's strategy is not customer-focused, CRM would be of no use (Rigby, Reichheld and Dawson 2003; Feinberg 2002).

"Successful businesses, like Dell Inc. or Wal-Mart, know exactly which customers they want and how valuable they are" (Rigby Reichheld and Dawson 2003, p. 2). They relentlessly seek to exceed those customers' expectations. On the other hand, if a company does not know who their most attractive customers are, they often formulate strategies that are neither cogent nor focused. That is, they lose ground to competitors by appealing to too many segments (Rigby Reichheld and Dawson 2003).

As firms begin to formulate customer strategy, they need to obtain the answers to seven critical questions that provide a foundation for effective CRM strategy:

1. Who are the firm's most profitable customers?
2. What makes servicing these customers profitable for the firm?
3. Why do those customers buy from us, and not from competitors?
4. What percentage of the market do these profitable customers represent?
5. Can we find more customers like them?
6. What can we do to encourage profitable customers to do more business with us?
7. How can we reduce the costs of serving the somewhat less important (but still profitable) customers?

If a firm's business strategy can answer the above questions, its CRM strategy has a higher potential for success. According to a survey by Gartner group more than half of all CRM implementations fail to live up to their expectations, while a further 20 percent fail substantially to do so. Most failures could have been prevented if more attention were paid to strategy during the CRM implementation phase.

FUTURE OF CRM

CRM has emerged as a potentially powerful business strategy. The best part, however, is yet to come. CRM should become deeply ingrained as a business strategy rather than as a tactic. Technology will advance, but it must be integrated into strategy as it becomes available. As with most technology deployment situations, CRM faces numerous organizational and cultural challenges. Much will change in the years ahead, but one thing is certain: CRM is a journey, not a destination.

Customers will always have an upper hand. In order to retain existing and to acquire new customers, companies will have to listen to them more closely than ever before, and meet their needs efficiently if they wish to retain them. The recent proliferation of mass customization offers promise in this regard because it helps businesses to become more connected to their customers.

The continuing technological advances in the field of communications, including the Internet and the World Wide Web, will ensure that customers will have better access to information and a wider range of products. It could be said that, in the future, companies will have to conduct marketing operations in a manner that does in fact meet customers' expectations. In other words, firms will have to become even more customer-centric than they may have been in the past.

Internet-based customer relationship management (ICRM) is a recent evolution. It could prove to be a fundamental and remarkably successful way of doing business. Besides an enhanced customer-centric philosophy, customers will increasingly demand more and better knowledge management functionality from companies. ICRM is a way for an organization to create, capture, and reuse knowledge to achieve its objectives. Thus, for business to succeed, companies need to deliver knowledge management to their customers on demand, anytime, and anywhere.

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