African Journal of Marketing Management Vol. 2(3) pp. 037-043, March 2010
Available online http://www.academicjournals.org/ajmm

Review

Towards a successful customer relationship management: A conceptual framework

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Accepted 11 February, 2010

As the world economy becomes globalized, competition has intensified and the differences in products have faded. Consequently, businesses have become fixated on customer relationship management (CRM) as it has become a central orienting point in academia and business environment with organizations increasingly focusing on managing customer relationships as a strategic capability to achieve market leadership and profits. In spite of the commercial significance of the concept, CRM has been demonized by critics as a marketing or managerial fad destined to failure. The purpose of this article is to examine ways to improve the success and effectiveness of CRM through the conceptualization of a framework known as CRM pyramid and to stimulate debate and research on how to improve the success of the concept as its potency to engage customers and improve business performance has not been in doubt.

Key words: Customer relationship management, strategy, capability, customer retention, resources, pyramid.

INTRODUCTION

Marketing from historical antecedent has undergone various shifts in emphasis from production through sales to marketing orientation. However, the various orientations have failed to engage customers in meaningful relationship mutually beneficial to organisations and customers, with all forms of the shift still exhibiting the transactional approach inherit in traditional marketing. However, Coltman (2006) indicates that in strategy and marketing literature, scholars have long suggested that a customer centred strategy is fundamental to competitive advantage and that customer relationship management (CRM) programmes are increasingly being used by organisations to support the type of customer understanding and interdepartmental connectedness required to effectively execute a customer strategy.

The work of contemporary researchers and writers such as Gummerson (2002), Woodcock (2000), Groonroos (1997) among others have been significant in establishing the importance of customer relationship management and business performance. According to Prof Payne (2000:6) of the Centre for Relationship Marketing, Cranfield University, consumer relationship management (CRM) has developed into a major element of corporate strategy for many organisations and it is known by other terms as relationship marketing and customer management.

CRM AND BUSINESS PERFORMANCE

There is an overplus of studies that have linked business performance to CRM competence. Woodcock (2000) found a correlation of 0.80 between how well companies managed their customers and business performance whilst Accenture (2001), a consultancy active in the CRM space, found that a 10% improvement in 21 CRM capabilities boosted profits (pre - tax) by as much as $ 40 - $ 50 million in a $1 billion company (Ang and Buttle 2006). Accenture indicated that this could be improved even further to $120 - 150 million if further improvements were made to CRM capability. Woodcock, Starkey, Stone, Weston and Ozimek (2001) also found that with proper investment and management of CRM, a 4 - fold return on investment could be anticipated over 3 years according to Ang and Buttle (2006). In a study of Asia - Pacific companies by IBM Consulting Services in 2004 as part of a global survey of 346 global organization to explore companies experience of CRM, over half of

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respondents reported that CRM value improve customer experience and retention as well as expanding existing customer base as top value creators. In the same study, 80% of companies acknowledged CRM as relevant in increasing flexibility and 70% in cutting operational cost (IBM Business Consulting, 2004). Anderson consulting also carried out a cross industry survey of 264 businesses that implemented CRM capabilities and found out that CRM performance account for 64% of difference in return on sales between average and high performance companies (Management Today, 2000).

CRM implementations have the capacity to improve organisational performance in the important areas of customer acquisition, retention and development. A study by Pricewaterhouse showed that a 2% increase in customer retention has the same impact on profits as a 10% reduction in overheads. The findings of Pricewaterhouse appear to have been reflected in another research conducted by Bain and Co (Financial Times Nov 1, 1996). Their work suggests that a 5% increase in customer retention can significantly increase profitability ranging from 25% in banking deposits to 85 % in car service industry (Yeshin, 2003). Given the above outcome of numerous studies, it is therefore not surprising that organizations and businesses have come to see CRM as a value proposition in achieving market leadership and profitability.

CRM INVESTMENT

The availability of empirical evidence establishing the relationship between CRM and business performance has in recent years stimulated an exponential growth of the concept worldwide. Chizek and Company (2007) revealed that AMR Research in Boston projects the market for CRM in US to grow to $18 billion in 2010 whilst the Gartner Group put worldwide CRM services at $ 19.9 billion in 2000 and predicted a rise of 26% annually to $ 64.3 billion by 2005 (Knox et al., 2003). Additionally, Taylor (2002) quotes the International Data Corporation (IDC) forecast that CRM market will be worth $148 billion by 2005 and estimates that the United States accounts for 44% of CRM revenue in 2000 with Europe growing from $13 billion in 2000 to $ 43 billion by 2005. In the Asia pacific market, Frost and Sullivan estimates revenue of $ 236 million in 2000 and expected to surge to $ 5 billion by 2007 according to Taylor.

Despite the phenomenal rise in popularity of CRM and the increasing level of investment in response to a number of empirical studies linking the concept to corporate profitability and performance, the concept lacks consensual definition both in the academia and industry. Knox et al. (2003) define CRM as strategic approach designed to improve shareholder value through developing appropriate relationship with key customers and customer segments that unites the potential of information technology and relationship marketing strategies to deliver profitable long term relationship. To Knox et al establishing CRM is an internal declaration of a company's desire for stronger customer focus and demonstrates senior management recognition that better relationship can improve company's performance. Rodriguez and Stone (2002) provide a definition offered by a retail bank as a business strategy and modes of operation deployed to maintain and develop relationship with profitable customers and manage the cost of doing business with less profitable customers. Ferrel and Hartline (2005) in a contribution see CRM as the holistic process of identifying, attracting, differentiating and retaining customers. The authors therefore believe that integrating CRM into a firm's supply chain to create a customer value at every step results in higher profit through increased business from a firm's customer base. Buttle (2004) and Karaskostas et al. (2004) state that different constituents give different definitions to the concept. Buttle conceptualised the definition of CRM into different level namely strategic, operational or analytical depending on the constituent making the definition. He sees strategic CRM as the development of customer centric business culture with operational CRM representing the automation of customer facing part of the business whilst analytical CRM is concerned with exploiting customer data to enhance both customer and company value. The difficulty in developing a single and acceptable definition perhaps reflects CRM complexity and diversity.

BENEFIT OF CRM

Notwithstanding the complexity of the concept, a number of benefits could be derived from or associated with building customer relations management. Harrison (2000:231) points out some as:

- It allows cross selling opportunities, leading to low customer expenditure over time. For many institutions, the attraction of building customer relationship is the promise of cross selling; selling additional products and services to existing customer base and that it is generally believed that longer term customers will buy more and if satisfied with the company and the company has what the customer wants, the customer will buy from the same financial services.
- Building relationship with customers stops competitors from knowing them. Harrison is of the view that retained and satisfied customers may be less susceptible to competitors appeal and indicates that Stum and Thiry (1995) argues that a satisfied customer may demonstrate immunity to the pull of competition.
- Harrison maintains that sales, marketing and set up cost are amortised over a longer customer life time. Linked to this point is that associated with acquiring a new customer which incurs initial set up cost and can be recouped over time. The ratio of cost to retention is high:

it is costing up to five times more to create a customer than to keep one (Clutterback 1989; Liswood 1989). According to Harrison, Riechheld and Kenny (1990) argue that customer economics generally improve over time, which is why it is important to take a lifetime value perspective which considers the potential life time income from customer relations to the cost attributed to the customer.

By understanding customers better, firms can provide higher levels of customer service and develop deeper customer relationships and as such CRM can be used to pin point high value customers, target them more effectively, cross sell the company's product and create offers tailored to specific customer requirement (Kotler et al., 2005).

Stone (2000) acknowledges that CRM allows firms to develop a robust targeting and enquiry management processes and this help boost new businesses significantly. CRM improves customer retention and loyalty - customer stays longer, buys and buys more often, thus increasing their long term value to the business. Simns (2003) maintains that research has indicated that if a firm aligns the management of customers to their needs, it reduces attrition rate by 25% and in the long term helps the firm to spend less on recruiting new customers to sustain a steady volume of business while cost of sales is also reduced as existing customers are usually more responsive. Zeimthaml et al (2006) believe that the CRM provides social benefit. The scholars express the view that customers develop a sense of familiarity and even a social relationship with their service providers which make it less likely to switch even if they learn about a competitor that might have better quality service, product or a lower price and in the long run the service provider becomes part of the customer social support system. Donaldson and O'Toole (2002) highlight one of the benefits of CRM as its ability to identify individual customer's profitability and the identification of customer needs so as to tailor products to individual customer requirements to help retain customer longer. However Smith and Dikolli explain that the purpose of understanding profitability of customers is not to eliminate unprofitable customers but to make them profitable as their circumstances changed and their needs are met (Fitzgibbon and White, 2004). In spite of the underlying benefits of CRM in building business value, most organizations have failed to mainstream the benefits of the concept into their activities to enable them develop closer relationship with customers.

CRITICISMS OF CRM

Even though the concept has exhibited enormous benefits, a number of organizations have become disillusioned with CRM investment perhaps due to the failure of the concept to deliver on its promise as the "holy grail" to the retention of customers leading to profitability. This has resulted in a situation whereby CRM on a number of occasions has been described as a fad and put in the prosecution box where critics have readily passed failure verdicts. Jopling (2001) supports that from hindsight, CRM has proved to be a bigger can of worm than anyone predicted and note that years down the line and after numerous experimentations, false starts, abandoned projects and wasted investment, many companies have consigned the concept into dust bin. .Although Jopling failed to provide figures to back his claim, several studies have also highlighted the failure of CRM.

Bains and Co reports in 2001 that as many as 1 in 5 CRM investments have actually destroyed customer relationship (Knox 2003). In a similar study, Customer Value Group, a business advisory firm found out that CRM systems are the root cause of Europe's top 1,000 publicly - quoted businesses losing up to 14 billion euros of profit. (CityAM. 2006). The concept has also been demonized and ranked in the bottom three for satisfaction out of 25 popular management tools and one in every five user reported that their CRM initiatives not only failed to deliver profitable growth but also damaged long standing relationship with customers according to researchers of Cranfield School of Management. The above perhaps have led to the conclusion by critics that CRM is a fad. This is further strengthened by Shaw and Merrick (2005) who described CRM as a fad that has risen and on a decline and compared CRM to other propositions such as customer centred growth (Whitley, 1997), customer engineering (Frigstad, 1995) and total customer service (Davidow and Uttal, 1989). The authors forcefully maintained that the concept as a means of maximizing retention does not exploit profit as the economics of CRM dogma is poor. In elucidating their stance, the Shaw and Merrick interestingly admit that customers are not created equal, yet fail to appreciate that CRM seeks to analyse the value of individual customers, identify the best ones to target and customize the firms products and interactions to meet each customer needs.

MAKING CRM EFFECTIVE: A CONCEPTUAL FRAMEWORK

Whilst we cannot dismiss and gross over the criticism of CRM, it is pertinent to stress that the capability of the concept to engage customers for the benefit of organizations has never been in doubt. Fascinatingly, Jopling (2001) a critic of the concept is of conviction that CRM is the most important strategy that any organization intending to stay in business must develop. He accepts that the new age of competitive advantage lies in learning how to win, keep and grow customers better and more systematically than anyone else in the market place. This view is shared by Kotler et al. (2005) that to succeed or survive, companies need a new philosophy and that to win in today's market place, companies must be customer centred, deliver superior value and become adept in building customer relationships, not just building products.

The success of CRM in any organisation depends on a number of factors. Several researchers and writers have highlighted some critical issues that underpin successful CRM. Ferrel and Hartline (2005) observe that employees are central to an effective CRM and as such firms must manage its relationships with their employees if they have any hope of fully serving customer needs and that this is especially important in firms where employees are the eyes of customers. Ferrel and Hartline therefore underscored that it is the significance of this that Bill Cooney, Deputy CEO of USAA, American property and casualty insurance firm with over $60 billion asset management portfolio with almost 100% of customer retention and consistently ranked among 100 best companies to work for in United States remarked that:

> "If you don't take care of the employees, they cannot take care of the customers. We give employees all they need to be happy and absolutely enthralled to be here. If they are not happy, we will not have satisfied customers in the long run…We must have passion for customers, if we don't we are in the wrong business''

Simns (2003) demonstrate similar view that the success of CRM initiative relies on involving staff in designing it at an early stage, rather than simply imposing it on them, employees who interface with customers need to be empowered to address customers concern promptly. Such empowerment in effect elicits commitment from employees to organisational goals. This is evident in the employee customer model profit chain built by Canadian Imperial Bank of Commerce (CBIC) based on its 1,300 branches. Since building the model as depicted in Figure 1, the bank has learned that 5% increase in employee commitment results in 2% gain in customer loyalty which in turn drives 2% gain in profit for CIBC worth $72 million in a year (Hill 2001).

In examining further how to make CRM effective, a conceptual framework as presented in Figure 2 was developed. The framework known as the CRM pyramid identifies three levels as critical factors for achieving successful CRM. Within the broad context of the framework, managerial commitment was seen as fundamental upon which cultural change would evolve and lead to organisational acceptance of CRM which lies at the apex of the pyramid. The foundation of successful CRM lies in the re-orientation of managerial mindset to a state of commitment that values customers as the central nervous system of organisational survival in the market place. As presented in CRM pyramid in Figure 2, managerial commitment serves as the basis of addressing CRM as a strategic issue through a holistic process. This leads to cultural change within the organisation focusing on the customer as the king pin within the market. People naturally resent change because it has the potency to disrupt the status quo. However, a successful CRM importantly hinges on the ability of managerial leadership to drive cultural change in an organisation into a state where the customer would be seen as a gem in a landmine of competitors and products. In this, managerial echelon of every organisation has the responsibility to influence the culture of an organisation by communicating their priorities, values and concerns, using their own actions, especially showing loyalty, self - sacrifice and service (Saran et al., 2009) to drive the change agenda. The cultural change should permeate through the organization, involving everyone from the chief executive officer to the least person in the firm. Organisations require change in philosophical orientation and this must pervade through the entire fabric of the organisation. As Osborne(2001) put it, 'if you want to change the business with major step improvement in the way you interact with your customers, everyone must then understand the changes being made, why they are being made, what is required from them personally, what it means to customers, the road map of development and the expected results.

Lancaster (2002) again cites Buttler as underscoring the view that to be successful in building relationship management across the organisation, companies must develop a supportive organisational culture, market relationship management internally, intimately understand customer expectations, create and maintain detailed customer database and organise and reward employees in such a way that the objectives of CRM is achieved. The cultural change results in the transformation of the concept into organisational wide ownership, leading to widespread acceptance across the organisation. In this situation it would not be seen as belonging to a particular department. The concept would therefore draw out support from all segments within the organisation to enable effective relationship be achieved between the customers and the organisation. Whilst it is meaningful to acknowledge technology as an element towards successful CRM, the total equation of the concept to technology, software and automation has been the biggest cause of CRM failure. A number of organisations have been seduced by technology as the answer to CRM and have relegated all other critical issues to the background and yet expect to be successful. The reliance on technology in most cases, have resulted in a number of customers especially in the banking and financial service industry become disillusioned because of the unpleasant experience of going through technological and automated processes to seek solutions to problems. Such technology and automation sometimes frustrate customers and drive them away as their peculiar need and problems are not addressed by the set of technological tools. In achieving successful CRM, organisations should go beyond the conception of CRM as a set of technological solutions. Jopling argues that technology is an enabler

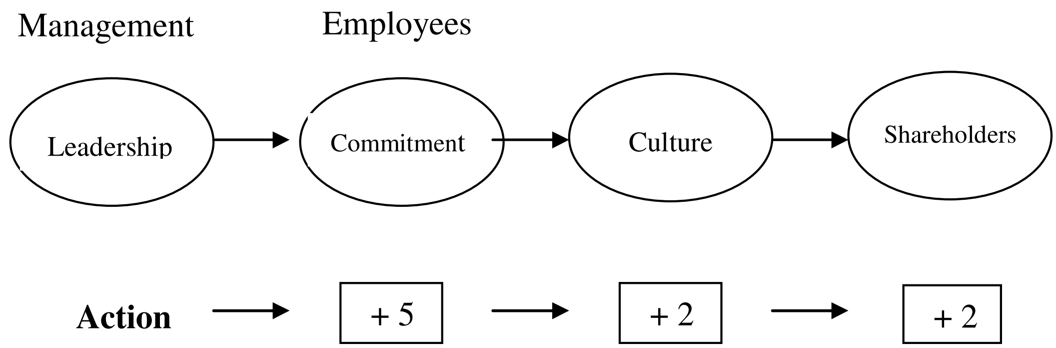

Figure 1. The profit chain model.
Source: Hill 2001.

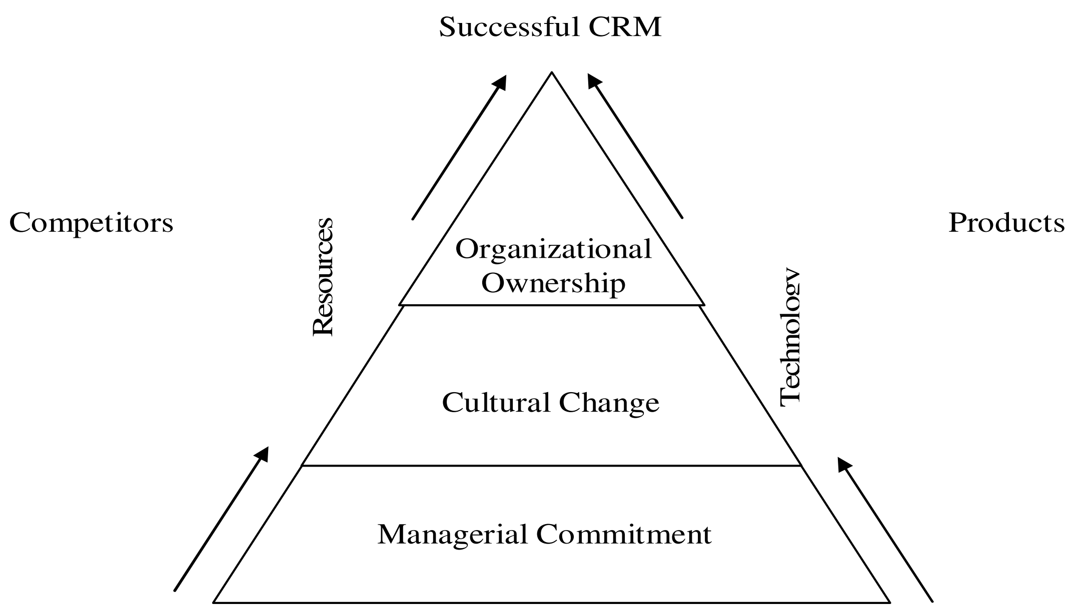

Figure 2. CRM pyramid.

but not a cause of a good CRM. This is supported by Knox et al (2003) who indicate that technology can certainly help companies to create satisfied and loyal customers, but it is by no means essential to successful CRM. The writers maintain that people and processes are essential and note that companies espousing CRM have largely ignored these two critical elements and attributed most failure of CRM to the misguided emphasis on technology and close association with specific tools being sold by Information Technology (IT) vendors. Colgate and Smith (2004) concretise other studies that customer relationship management is driven by technology rather than a well articulated customer strategy and this has occurred to the extent where the acronym CRM has become synonymous with technology rather than a programme to build customer relationships. Coltman (2006) points out that the CRM artifact is more than just technology and successful CRM programmes are best represented as an adroit combination of technical, human and business capabilities. The reason, according to Coltman is that each capability is nested within an intricate organizational system of interrelated and interdependent resources and that a company requires a combination of human, technical and business capabilities if CRM programmes are to be successful.

Although the scholar concedes that businesses need technology to drive a portfolio of CRM processes that includes cross-selling, up-selling, marketing and fulfillment, customer service and support, field service operations and retention management as technology is necessary to integrate customer content, customer contact information, and end-to-end business processes throughout the organization, he still maintained that IT or CRM software alone is insufficient to achieve success.

Resources also play valuable role towards the realization of organisational goals. In view of this, units and departments within organizations compete for resources such as information, knowledge, personnel and other tangible and intangible assets. Interestingly, units that control resources that are strategic in terms of managing critical relationships between the firm and its environment achieve power within the organization and therefore the firm depends disproportionately for its survival and or success on units that control strategic resources (Mudambi and Pedersen 2007). In this, critical resources such as information and knowledge necessary for addressing customers problem must not be the preserve of a particular unit but organizations must re-align its internal architecture and leverage such resources across the spectrum of the organization to enable people deal with customer issues promptly. Further, Coltman (2006) opines that to be successful, CRM programmes must be feasible and this requires a wider understanding of the structural and behavioral limits to organizational alignment and most importantly, high performing companies must not overly be concerned with reactive responses to expressed needs, but seek a proactive orientation that directs attention towards latent or unarticulated demand. For organizations to achieve successful CRM, Coltman therefore suggest that the concept must be viewed as more than a tool but part of a deeply embedded strategic disposition that enables businesses to outperform their rivals in what are otherwise fiercely competitive markets. Successful CRM therefore lies in the ability of an organization to develop a set of fundamental assumptions that seek to value customers as integral part of business and uniquely address customers' problems to achieve satisfaction and retention. In such circumstances, organizations should not put high premium on product complexities and innovations as the key to any competitive strategy but embrace CRM which goes beyond product innovation to develop relationship with customers through regular interactions.

CONCLUSION

Today, the strategic importance of CRM has become an essential capability to enable firms respond efficiently to customer needs in a highly competitive and volatile market in any industry. Karaskostas et al believe that business institutions are facing strong competition not only from existing players but also new other entrants from other sectors and indicated that CRM holds the promise to achieve corporate objectives in a highly competitive arena. A successful CRM therefore requires a combination of managerial commitment, cultural change and a combination of resource and technology to achieve the needed result. As firms embrace CRM as a competitive capability to meet customers need, the concept should not be branded as marketing or managerial fad but rather a capability that holds the key to competitive advantage as research have evidenced the ability of the concept to help organizations to achieve market leadership in any industry. CRM only becomes a failure when it is conceptualised as technological tool and software solution only. It should rather be viewed as a strategic wherewithal and deployed holistically across the broad spectrum of an organization to assure its success. To help address fundamental failure in CRM concept, organisations must re-carve its understanding of the concept as not only a set of technological attributes but a combination of other factors as shown in the CRM pyramid. As competitive realities dawn on businesses, it therefore becomes imperative for organizations to adopt effective CRM strategies in order not to turn the concept into a failure as Brenan (2006) believes that the increased sophistication required to trade successfully and profitably are dictates that pay regard to the basic marketing truism that in any competitive situation, the organization which really knows its market and customers, their problems and need have the best chance of survival.

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