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Cross-Functional Issues in the Implementation of Relationship Marketing Through Customer Relationship Management

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

In this paper we explore the three main issues that can enable (or hinder) the development of Customer Relationship Management in the service sector; the organisational issues of culture and communication, management metrics and cross-functional integration — especially between marketing and information technology. © 2001 Elsevier Science Ltd. All rights reserved.

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Introduction

Customer Relationship Management (CRM) has its roots in relationship marketing which is based in turn on the formative work by Berry (1983), the IMP Group (see e.g. Ford, 1990) and Christopher *et al.* (1991). Seminal contributions to the relationship marketing debate were made by Reichheld and Sasser (1990) reporting on the customer retention work of Bain and Co. These findings indicated that a 5 per cent increase in customer retention resulted in an increase in average customer lifetime value of between 35 and 95 per cent, leading to significant improvements in company profitability (Reichheld, p. 36) (Figure 1).

Reichheld (1996) concluded that there are six underlying reasons why retained customers are more profitable (p. 39):

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

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

- ❖ Customer acquisition costs may be high, so customers may not become profitable unless they are retained for one or more years;
- ❖ There will be a stream of profits from the customer in each year after acquisition costs are covered;
- ❖ Customers buy more over time, so revenues go up; companies become more efficient at serving them (there is a learning curve to the relationship), so costs go down;
- ❖ Retained and satisfied customers may refer other potential customers;
- ❖ The relationship has a value to the customer too, so that retained customers tend to become less price-sensitive.

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

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

Customer Relationship Management

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

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

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

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

Notwithstanding these technological perspectives, the philosophical bases of CRM are a relationship orientation, customer retention and superior customer value created through process management. IT is the 'glue' that holds these together and enables the whole to be operationalised. In consequence, the successful implementation of CRM requires Marketing and IT to work closely together to maximise the return on customer information. This will almost certainly require a degree of cross-functional reorganisation.

In summary, the key characteristics of CRM are:

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

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