

Customer relationship management in retailing: A content analysis of retail trade journals

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Abstract

The purpose of this research was to increase knowledge and understanding of how retailers use business intelligence and data mining tools to implement customer relationship management (CRM) in retailing. Specific objectives were to (1) identify organization and infrastructure requirements for CRM effectiveness, (2) identify CRM objectives and goals of retail companies, (3) identify data mining tools utilized by retailers to perform CRM functions, and (4) identify CRM strategies used by retail companies. A keyword search within business databases using CRM and CRM identified publications with CRM content. Content analysis was used on articles ($N = 149$) drawn from *Stores*, *Chain Store Age*, *Harvard Business Review*, and *Retail Forward* over a 5 year period (2000–2005). Selected articles were stored as text files in QDA Miner, a computerized qualitative analysis tool. Key organization/infrastructure needs emerged focusing on data structure, organizational systems, technology structure, and data accessibility. Retailers goals/objectives and strategies focused on marketing, customer service, understanding customers through data analysis and increasing acquisition and retention through customer loyalty programs. Data mining tools identified supported marketing and customer analysis efforts. Findings provide insight into the challenges retailers face as they implement a more customer-centric business strategy.

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1. Introduction

Retailers face a dynamic and competitive retail environment. With increased globalization, market saturation, and increased competitiveness through mergers and acquisitions, retailers are seeking competitive advantages by better managing customer relations through database management. This is not a new concept but seeking competitive advantage through improving relationships with customers has taken on new life. “Companies recognize that customer relationships are the underlying tool for building customer value, and they are finally realizing that growing customer value is the key to increasing enterprise value” (Rogers, 2005, p. 262).

Retail companies seek to maximize relationships with customers. Thus, a shift in organizational thinking is

necessary as retailers embrace a “customer-centric” focus and implement strategies to support this focus. This shift in organizational culture challenges retailers to revise organizational systems and processes, identify customer-related metrics, and identify areas of strategic advantage.

Organizational systems and processes, especially those related to data and information management, are changing to respond to this shift toward “customer-centric” retailing. To address this customer focus, discussions of data management and availability, data warehousing, and data mining are occurring at various levels within retail companies from the boardroom to the store management level. A clear shift toward data-based decision making is evident.

In tandem with this shift toward customer focus and data-based decision making, customer relationship management (CRM) has emerged to allow retail companies to respond to shifting customer needs and wants using analytical tools in conjunction with their enterprise-wide databases. In a survey of 708 global executives, 82% of

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those surveyed planned to employ CRM in their companies (Rigby & Ledingham, 2004). A recent CRM retail survey conducted for the national retail federation (NRF) by Gartner Dataquest reported that “nearly two-thirds of retail companies expect to increase their spending for CRM technology during the next 2 years” (p. 94). It was projected that by the year 2005, 92% of those surveyed would have CRM plans in place (Reda, 2003). Data mining technology can consolidate retail data, analyze and distribute data to users, capture data across multiple retail channels, and create “one view” of the customer. With the use of data mining tools, the plethora of data currently gathered and stored by retailers can be leveraged to gain customer and company insight to support CRM. With the dramatic changes in retail today, taking a customer-centric approach is necessary to stay competitive.

Data mining has been defined as a statistical process of analyzing data stored in a data warehouse (Decker, 1998). A data warehouse is an extensive data repository consisting of information from all facets of an organization that is maintained to support decision making. Through data mining technology large databases can be explored to find relationships and trends previously unknown, to provide support for complex decisions. Retail databases often include such information as consumer shopping patterns and behavior, sales history, promotional information, inventory information, and pricing data.

Empirical research on data mining applications in the retail industry is limited. Studies have focused primarily on the e-commerce sector. Lee et al. (2001) analyzed click stream data to study online shopping behavior as well as visualization and data mining analysis techniques to analyze the movement of customers through websites as a means to better understand online merchandising. Path analysis has been used to study web traffic (Berkin et al., 2001). Data mining has been explored in optimizing inventory levels for electronic commerce, to analyze product performance of online stores and to analyze web-based shopping systems (Dhond et al., 2000; Lee and Podlaseck, 2000; Arlitt et al., 2001). Data mining research related to “bricks and mortar” or store-based retailing is limited. Two store-based retail studies identified were focused on product selection and assortment (Brijs et al., 2000). Clearly, the research on the use of data mining to implement CRM in retailing is limited.

Recent work in marketing suggests that paying attention to CRM can enhance firm performance. Cao and Gruca (2005) developed a cost-effective method for reducing adverse customer selection through CRM. The study resulted in a model for improved accuracy in new customer acquisition and more effective target marketing to increase customer lifetime value. Gustafsson et al. (2005) studied telecommunication services to examine the effects of customer satisfaction and behavior on customer retention. Results indicated a need for CRM managers to more accurately determine customer satisfaction in order to reduce customer churn. Jayachandran et al. (2005)

conceptualized and measured organizational routines that are critical for CRM. Results identified ways to improve the use of CRM technologies to enhance firm performance. Lewis (2005) identified new measures for a more accurate assessment of customer lifetime value. Mithas et al. (2005) studied the effects of CRM initiatives showing that CRM efforts improve a firm’s knowledge of their customers and in turn, improved customer satisfaction. They also determined that sharing CRM information with suppliers created gains in customer knowledge. Ryals (2005) found that CRM increases firm performance through the analysis of customer lifetime scores in two longitudinal case studies. Srinivasan and Morman (2005) analyzed the link between a firm’s strategic commitments and the rewards of CRM initiatives. Thomas and Sullivan (2005) used case study analysis to develop an initial marketing communications strategy for the multi-channel retailer.

Despite its apparent value, data mining and its application to CRM has not been systematically studied in the retail environment. Research on CRM and the use of data mining to support CRM is limited. The academic literature is virtually silent on this topic. In this emerging research area, current practice can provide insight for research and theory development. Thus, trade publications were chosen as a primary source of data since current retail practice is frequently reported in the trade literature.

The purpose of this research was to increase knowledge and understanding of how retailers use business intelligence and data mining tools to implement CRM in retailing. Specific objectives were to (1) identify organization and infrastructure requirements for CRM effectiveness, (2) identify CRM objectives and goals of retail companies, (3) identify data mining tools utilized by retailers to perform CRM functions, and (4) identify customer relationship strategies used by retail companies. Findings provide insight into the challenges retailers face as they implement a more customer-centric business strategy.

2. Methods

To conduct this study, content analysis of industry trade publications was used. Content analysis is a method of analyzing large text-based data sets to identify the frequency of keywords and phrases and to discern patterns within the data, articles from four retail trade publications were analyzed over a 5-year period. Information about CRM has been prevalent since the mid-1990s (Payne and Frow, 2005) but Frasquet et al. (2002) stated that a review of the literature over a 5-year period is sufficient to analyze trends. A focus on retail industry trade/management publications was used to ascertain the trends and strategies related to CRM use in the retail industry. Retail-specific publications that included the greatest number of articles focusing on CRM were used for analysis. An initial list of 34 publications was identified by an environmental scan. A keyword search using CRM and CRM identified the publications with CRM. Content stores, chain store age,

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