

Organizational characteristics and the CRM adoption process

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Received 1 February 2007; received in revised form 1 April 2007; accepted 1 May 2007

Abstract

The purpose of this study is to identify the status of Customer Relationship Management (CRM) adoption and explore the influence of organizational characteristics on the CRM adoption process in the Korean fashion industry. Using Rogers' [Rogers EM. Diffusion of innovation. New York: Free Press; 1995] innovation decision process model as the conceptual basis, this study surveyed 94 Korean fashion companies to investigate the persuasion, decision, and implementation stages of CRM adoption. Organizational variables included firm characteristics (size, strategy, maturity of information system), product characteristics (category, fashion position, seasonality), and CEO characteristics (age, education). The most frequently used CRM technology is the development of a customer database, whereas the mostly frequently mentioned benefits of CRM are encouraging repurchase. Moreover, respondents' perceptions of CRM benefits affect CRM adoption, influencing the use of various CRM technologies. Organizational strategy, maturity of information system, and product category all significantly influence the adoption process. Empirical findings provide further support for the innovation decision process model developed by Rogers [Rogers EM. Diffusion of innovation. New York: Free Press; 1995] and the CRM adoption model can be used when fashion companies do strategic planning and evaluate the possibility of adopting CRM strategies.

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Keywords: Customer Relationship Management (CRM); Adoption process; Organizational characteristics

1. Introduction

Recently, consumers' needs and purchase patterns have changed dramatically. To meet various needs, companies tend to adopt differentiated and customer-oriented marketing strategies to gain competitive advantage. Customer Relationship Management (CRM) is one specific example, adopted to create and manage relationships with customers more effectively through the detailed and accurate analysis of consumer data using various information technologies (Anderson Consulting, 1998; Buttle, 1996; Gefen and Ridings, 2002; Ngai, 2005). Improved relationships with consumers can lead to greater customer loyalty, retention, and profitability.

Although the importance of CRM as a successful strategic approach since the 1990s has been widely recognized, there is

no consistent definition of it (Ling and Yen, 2001; Xu et al., 2002). According to Swift (2001), CRM is "an enterprise approach to understanding and influencing customer behavior through meaningful communications in order to improve customer acquisition, customer retention, customer loyalty, and customer profitability." Kincaid (2003) defines CRM as "the strategic use of information, processes, technology, and people to manage the customer's relationship with [the] company across the whole customer life cycle." According to Ko et al. (2004), CRM is also defined as the integrated customer management strategy of a firm to efficiently manage customers by providing customized goods and services and maximizing customers' lifetime values.

The goal of CRM is to achieve a competitive advantage in customer management and ultimately increase profit levels (Gartner Group, 2005, 2006). In the Korean fashion industry, companies are increasing their CRM investment in managing existing customers to survive in the economic downturn rather

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than attracting new customers by expanding the business (Fashion CRM Fair, 2006). Generally, attracting new customers costs five times as much as keeping or managing existing ones, which means that existing customers contribute five times more sales than new customers do (Seo, 2001). However, even though the interest and investment in CRM in the Korean fashion industry have been constantly growing, few empirical research studies and proven practices about the CRM adoption process and related factors with a proposed framework have been undertaken in the industry (Fashion CRM Fair, 2006).

Thus, this study will provide essential information for developing appropriate business strategies for the Korean fashion industry by identifying the main factors of the CRM adoption process. The specific purposes of the study are to (1) identify the CRM adoption status of the Korean fashion industry by examining firms' perceptions of CRM benefits, adoption of a CRM strategy, and implementation levels of CRM technologies, and (2) examine the main factors influencing CRM adoption, such as firm characteristics (size, strategy, maturity of information system), product characteristics (category, fashion position, seasonality), and CEO characteristics (age, education).

This study makes several contributions. First, the CRM adoption model can be used when fashion companies do strategic planning and evaluate the possibility of adopting CRM strategies. Informed decisions are critical for companies to use their resources more efficiently and provide improved service to the final consumer. Second, our empirical findings provide further support for the innovation decision process model developed by Rogers (1995). Finally, our major premise is that the process by which firms adopt CRM innovation is affected by their overall organizational characteristics.

2. Literature review

2.1. CRM adoption process

The innovation decision process model of Rogers (1995) was adopted in this study because CRM is considered an innovative management strategy. Rogers defines innovation as "ideas, action programs, or objects appealing as new things to individuals or organizations." The innovation decision process has five stages: knowledge, persuasion, decision, implementation, and confirmation. In the knowledge stage, companies recognize an innovation and its functions. In the persuasion stage, the firm needs to be convinced that an innovation will bring benefits and competitive advantages, so it begins searching for information about the innovation, such as its costs and benefits. Organizational characteristics, such as the size of the firm and its external business environment, are influential. The decision stage occurs when the firm decides to adopt, reject, or postpone the innovation. In the implementation stage, the firm puts the innovation to use to achieve its objectives. In the confirmation stage, the firm decides whether to continue or discontinue adoption of the innovation. This study focuses on three of these stages: persuasion, decision, and implementation.

Many researchers have explored the benefits of CRM. Kang (2004) found that the perceived benefits in the insurance

industry were management efficiency, cost reduction, improved customer services, and increased sales and profits. O'Leary et al. (2004) found that firms using the Internet gained more accurate consumer data collection, improved interactions and relationships with customers, and reduced costs. Ko et al. (2004) also found that CRM helped boost profits, improve customer relationships, increase instances of customer repurchase, and develop a customer database. A sample of specific advantages identified in the literature (Aspinall, Nancarrow, and Stone, 2001; Chattopadhyay, 2001; Coner and Gungor, 2002; Lemon, White, and Winer, 2002; Reinartz and Kumar, 2002; Ultsch, 2002) includes the following:

- increased profits
- more customer relationships
- more repurchases
- accurate customer information collected
- enhanced customer loyalty
- improved efficiency of customer management effect of word of mouth
- reduced cost of new customer acquisition
- greater ease in developing new products
- increased sales by additional purchases
- reduced cost of direct marketing
- increased brand loyalty
- increased customer LTV (lifetime value)

The more decision-makers perceive these CRM benefits during the persuasion stage, the more likely they will be convinced that the innovation will give the organization a competitive advantage.

The choice of adopting a CRM strategy represents the decision stage. According to the innovation decision process described above, the adoption decision precedes the choice of the specific CRM technologies. Once the adoption decision is made, companies look for specific technologies/strategies for CRM implementation. The more committed the firm is to its CRM strategy, the more likely it will be to employ a larger array of technologies. Technology is defined in this context as "the physical combined with the intellectual or knowledge processes by which materials in some form are transformed into outputs used by another organization or subsystem within the same organization" (Hulin and Roznowski 1985: p. 47). Researchers have identified a variety of technologies related to CRM (Ko et al., 2004; Mitussis, O'Malley, and Patterson, 2006; Park and Park, 2004; Rowley, 2005), including:

- product development through customer DB analysis
- product development through customer involvement
- development of customized products
- customer mileage reward programs
- real-time customer services
- managing customer loyalty
- managing customer complaints
- developing member-only access to website
- customer database development
- customer categorization based on spending

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