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Customer relationship management: Finding value drivers

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Abstract

Despite significant interest from both academicians and practitioners, customer relationship management (CRM) remains a huge investment with little measured payback. Intuition suggests that increased management of customer relationships should improve business performance, but this intuition has only inconsistent empirical or real world support. To remedy this situation, this study identifies a core group of expected CRM benefits and examines their ability to increase a firm's value equity, brand equity and relationship equity which are components of customer equity. Ten propositions explore the anticipated effects of these drivers and form an agenda for future research. These propositions establish a framework for measuring CRM and supporting the link between CRM and performance.

Keywords: Customer relationship management; Customer equity; Value drivers; Performance

The disappointing results from many customer relationship management (CRM) implementations are well documented in both the academic and business press. In 2006 McKinsey Quarterly cited a Forrester Research report indicating that only 10% of the business and information technology executives they surveyed strongly agreed that expected business results were achieved from implementing CRM (Bard, Harrington, Kinikin, & Ragsdale, 2005). A 2003 Gartner study estimates that 70% of CRM projects result in either losses or no bottom line improvement. According to a 2001 Bain and Company survey of 451 senior executives, one in every five users reported that their CRM initiatives not only failed to deliver profitable growth, but also had damaged long-standing customer relationships. Despite this evidence, several industry groups have estimated that billions of dollars are being spent on CRM annually. Gartner research suggests that there was a reduction in CRM spending between 1999 and 2003 (Rigby & Ledingham, 2004), but most estimate an increase in CRM spending. Current spending on CRM-related projects is estimated around $10 to $15 billion and experts predict future growth in CRM spending to reach $75 billion and beyond over the next several years (Chatham, 2002; Tiazkun, 1999; Winer, 2001).

Rigby and Ledingham (2004) attribute this spending increase to some recent CRM success stories. These successes have two common characteristics: one is a highly focused approach to CRM with a relatively narrow scope for the projects and the second is a healthy skepticism regarding the overblown claims of CRM vendors. This reduction in scope for CRM projects and more conservative projection of benefits is bringing some much needed financial responsibility to CRM implementations.

Even with some successes, academicians and practitioners remain challenged in their ability to define and measure the results of CRM in a way that allows for accurate cost-benefit analysis. Several stumbling blocks remain between a clear understanding of what constitutes a successful CRM project and where we are today. First, we suffer under multiple definitions of CRM. Before we are able to measure CRM, we must be able to define it clearly and consistently. Second, the benefit drivers associated with CRM projects have to be identified and related to relevant measures. Finally, we need to establish an effective method for measuring the success of CRM efforts in a way that supports management decision making.

This study will contribute to the CRM literature in three ways. First, it will attempt to simplify the confusion surrounding CRM

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definitions by using management decision making as a benchmark for evaluating definitions. Second, it will identify benefit drivers associated with CRM initiatives via an extensive literature search. Third, it will advocate propositions that relate the benefit drivers to appropriate measures. To achieve this result, two streams of research will be integrated and used to develop a measurement of CRM based on its contribution to customer equity (CE). Ultimately, this research will relate CRM investments to financial measures in a way that provides managers with the necessary information for marketing investment decision making.

1. Customer relationship management and customer equity: literature review

1.1. Customer relationship management

The integration of CRM and CE literature streams will build on the desire of marketers to effectively measure the benefits of their investments in CRM. Research in marketing has been focused on relationships and building partnerships for some time (Crosby, Evans, & Cowles, 1990; Dwyer, Schurr, & Oh, 1987; Morgan & Hunt, 1994), but it was not until technology became available to support managers in building relationships that CRM became an important part of this research (Chen & Popovich, 2003). Consistent with the overall desire to manage relationships, CRM is generally defined as the "management of mutually beneficial relationship(s) from the seller's perspective" (LaPlaca, 2004, p. 463). However, when a more specific definition is required, as it is in the case of measurement, scholars and practitioners alike have found CRM to be difficult to define and measure.

An exploration of some of the more common definitions of CRM will illuminate the ways that these multiple definitions have slowed progress in measuring CRM investments. To simplify the discussion, current definitions will be classified into one of two categories: strategic or operational. This bifurcation of definitions is similar to that of Leigh and Tanner (2004) who suggest that CRM is either analytical or operational. For the purpose of this research, we are making a distinction between strategic and operational definitions.[2] First, CRM is often defined as a form of relationship strategy. Considered from a top-management perspective, The Sales Educators (2006, p. 93) define strategic CRM as "the process that identifies customers, creates customer knowledge, builds customer relationships, and shapes customers' perceptions of the firm and its products/solutions". Determining how a firm will relate to its customers via channels, messages, products and services is also thought of as strategic CRM. "A comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer" is one strategic definition offered by Parvatiyar and Sheth (2001, p. 5) However, Parvatiyar and Sheth continue by explaining that CRM involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering value. This extension to the definition is similar to the way that The Sales Educators define a more process-oriented view of CRM later in their book. These dualistic definitions indicate that strategic definitions and operational definitions may be closely related. This relationship is further born out in a practitioner's definition: CRM aligns business processes with customer strategies to build customer loyalty and increase profits over time (Rigby, Reichheld, & Schefter, 2002).

The second category of CRM definition is more process oriented and less strategic than the first. These non-strategic definitions, or operational definitions, are more closely related to the processes and technologies associated with enabling better customer relationships. Bain and Company executives have offered this explanation in a recent Harvard Business Review article, "CRM allows companies to gather customer data swiftly, identify the most valuable customers over time, and increase customer loyalty by providing customized products and services" (Rigby et al., 2002, p. 101). To add to the confusion, some of the earlier process definitions were very narrow in scope relating CRM to database marketing by emphasizing the promotional aspects of marketing linked to database efforts (Bickert, 1992). Winer (2001) builds on this notion that CRM is ill defined. He states,

> CRM means different things to different people. For some, CRM means direct e-mails. For others, it is mass customization or developing products that fit individual customer's needs. For IT consultants, CRM translates into complicated technical jargon related to terms such as OLAP (on-line analytical processing) and CICs (customer interaction centers) p. 91.

More recently, Reinartz, Krafft, and Hoyer (2004) conceptualized CRM at the customer-facing level. Based on their view that CRM is process related, they also posit that there are three customer relationship stages: initiation, maintenance, and termination that impact the CRM process. Following this they define CRM as, "A systematic process to manage customer relationship initiation, maintenance, and termination across all customer contact points in order to maximize the value of the relationship portfolio" (p. 294).

The bottom line from all of these definitions is that academicians have yet to land on a definition that fully supports the complexity of CRM while maintaining a level of parsimony required for its measurement. Parvatiyar and Sheth (2001) called out the need for a CRM definition that articulates CRM's unique characteristics for example: one-on-one relationships, interactive processes not transactions, value-added activity through mutual interdependence, and collaboration between suppliers and customers. It is to this end that we provide the following definition.

For the purpose of this research, CRM will be defined as a set of business activities supported by both technology and

[2] Zablah, Bellenger, and Johnston (2004) offer five perspectives of CRM based on their assessment of the literature. Given our focus on measuring CRM we opted for a more simple representation of the definitions available. However, it should be noted that our definition of CRM is consistent with the nature of the Zablah et al. (2004) definition in that both conceptualizations attempt to integrate the disparate definitional categories.