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The CRM process in retail and service sector firms in Japan: Loyalty development and financial return

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Abstract

Research on customer relationship management (CRM) in general has focused on the effects of customer satisfaction with CRM, customer retention and profit management, and the effects of CRM technique on performance. Conceptually, however, a sequence of effects of CRM is expected, from CRM implementation to financial performance, but this sequence has not been explored. Whilst several definitions of CRM have been proposed, this article defines CRM as relationship-development programmes based on IT. CRM is regarded as the integration of relationship technology (i.e. data consolidating and data mining) with loyalty schemes. Survey research was conducted in Japan in the retail and service industries to test three hypotheses: (1) a firm's relationship orientation has a positive effect on CRM implementation (data warehousing, data mining, using customer data for decision making); (2) CRM implementation has a positive effect on return on equity; and (3) CRM implementation has an indirect effect on return on equity, mediated by customisation. Using a structural equation model the first hypothesis was supported, but the third hypothesis was only partially supported. In these analyses a direct effect of CRM implementation on return on equity (ROE) was supported; however, a negative impact of customisation on ROE was found.

Keywords: Loyalty schemes; Return on equity; Customisation; CRM; Japan

1. Introduction

Customer management itself is not a new concept. The development in the mid-1990s of customer management techniques using IT (termed CRM), with the IT being used to track multiple activities of customers, distinguishes CRM from earlier approaches to customer management. Consulting firms assert that the CRM concept enables customer loyalty-building and profitable segmentation. CRM has been often discussed in academia, in the context of relationship marketing. However, researchers have recently started to pay more attention to CRM per se, instead of regarding it as just an applied area of relationship marketing.

CRM practice is characterised by its technological elements. Since CRM involves repetitive practices for transferring customer data into the actual customer relationships (Swift, 2001), it requires practical technologies for transferring information. IT vendors focused on the technologies such as computer telephony integration (CTI), data warehousing, application software, and system integration, etc., which are used to implement the CRM concept. The managerial value of CRM is in customer loyalty and relationship building, although it has foundations in technological dimensions. Therefore, CRM is defined as *customer relationship building programmes based on IT*. Such programmes may be directed at loyalty building, but other uses are also in evidence.

Conceptually, CRM is supposed to enhance value to customers through raising satisfaction levels on transactions. If customers appreciate the value provided by a CRM programme, they are expected to continuously enhance the relationship with the firm involved through

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loyalty to the products/brands, purchasing more, advocating the firm to others, etc.. Such a customer, who has repetitive or loyal behaviour, brings about additional financial value to the firms. Although the implementation of CRM involves large investments in IT and management, it is expected to yield a profitable outcome, as a result. Therefore, a sequential effect of CRM should be expected from customer satisfaction to financial benefit for the firm. However, most research on CRM has tended to test partial causalities, for example, impact of CRM on customer satisfaction or customer retention on financial performance, other than the direct effect of CRM on financial performance, even though the sequential effect of CRM is recognised.

This paper tests the sequential effect of CRM strategy on company profitability. It is based on survey research undertaken in Japan in 2005. First, we explore the theoretical approach to CRM by reviewing CRM in the context of relationship marketing and loyalty marketing. Second, we summarise the previous empirical research and present the conceptual framework. Finally, we test our hypotheses based on the conceptual framework and present some implications.

2. Conceptual framework

2.1. Theoretical approach to CRM

Early in the conceptualisation of CRM in the field of marketing, Parvatiyar and Sheth (2001) explored the conceptual foundations of CRM based mainly on the relationship marketing concept. They attributed the development of CRM to the changes of business circumstances with IT, especially innovation of firms' interfaces with customers and total quality philosophy associated with cost reduction efforts. They paid attention to customer selectivity and the simultaneous realisation of efficiency, instead of viewing CRM in a narrow sense of database marketing. They developed the CRM implementation process model which consists of four components: CRM relationship formation, management and governance, performance, and evolution. They regarded loyalty and customer satisfaction as one aspect of CRM performance, in addition to strategic and financial goals. They explain that the overall purpose of CRM is to improve marketing productivity and to enhance mutual value for the parties involved in the relationship.

In recent work defining CRM, Boulding et al. (2005) provided an overview on CRM research, questioning whether CRM is just repackaging the basic marketing concept, using ideas from evolutionary economics, which forces paradigm shifts in firms. They pointed out that the concept of value maximisation, whereby a firm maximised profits and consumers maximise utility is not a new idea. However, they concluded that CRM is the outcome of the continuing evolution and integration of marketing ideas and newly available data, technologies, and organisational forms, based on successful results of several empirical studies of CRM. They emphasised the concept, dual creation of firm and customer value as a significant element of CRM.

Payne and Frow (2005) identified three alternative perspectives of CRM: the implementation of a specific technology solution project, the implementation of an integrated series of customer-oriented technology solutions, and a holistic approach to managing customer relationships. They adopted the broad, strategic perspective and developed the CRM conceptual framework for strategic implementation. They argued that the role of CRM is to enhance customer value, and so result in enhanced shareholder value. Considering this dual value issue of Payne and Frow (2005), we now discuss customer loyalty issue first, and then focus on the profitability issue for firms by retaining customers.

2.2. Context of relationship marketing

Technology is essential to CRM implementation. Collecting customer data, disseminating, using and integrating them within the firm, requires technology. However, building or enhancing relationships with customers is a more crucial factor for CRM. CRM has been regarded as an applied area of the theory of relationship marketing. In this section, a need to extend relationship marketing is argued.

The concept of relationship marketing has an extended history in supplier–buyer relationships in industrial marketing, channel member management or governance in the channel of distribution, and service providers–users interaction management. Several researchers have tried to identify the relationships which should be managed and have theorised the functions of the patterns of relationships between firms or service providers and users in those fields. Although the earlier publications about relationship marketing tend to describe the existing relationships between organisations (e.g. Hakansson, 1982; Anderson and Narus, 1990), some researchers have tried to extend, theoretically, the relationship concept between organisations to consumers. Extending relationship marketing to consumers is controversial. Support for it is based on the technological advances and feasibility of database marketing (e.g. Sheth and Parvatiyar, 1995a, b). On the contrary, there is some scepticism about the appropriateness of the extension (Gruen, 1995; Fournier et al., 1998; O'Malley, 1998; O'Malley and Tynan, 2000).

Sheth and Parvatiyar (1995a) proposed that due to technological advances direct marketing can be renamed as relationship marketing, in the context of a marketing paradigm shift from transactional marketing to a relationship orientation. In their discussion, technological developments in electronic communication systems are making it easier for consumers to interact directly with the producers and producers can be more knowledgeable about consumers, maintaining and accessing sophisticated