

# Identifying issues in customer relationship management at Merck-Medco

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## Abstract

This paper reports the results of a study designed in close collaboration with Merck-Medco to identify key barriers to the success of their customer relationship management. To identify the key factors, we first used focus groups of principle users of the system to brainstorm and generate a list of scenarios and issues. A team of managers, supervisors and customer service representatives then consolidated this list. A 54-item survey was derived from the list and used to collect 1460 responses from the user groups within the company. Data were equally divided into two sets. Exploratory factor analysis was used with the first data set to identify principal factors that explained the majority of problem areas. Structural equation modeling was used with the second data set to further examine and confirm the initial list of factors. The study results suggest a seven-factor 21-item model describing barriers to the success of customer relationship management in terms of ‘*standard operating procedure compliance*,’ ‘*accountability and ownership*,’ ‘*callback information content*,’ ‘*customer contact process*,’ ‘*billing issues*,’ ‘*dispensing and replacement process*,’ and ‘*queuing procedure*’. These factors explained the majority of customer relationship problems in the company. These measures can be used by the company to plan and monitor remedial response. Evidence of reliability and construct validity is presented for the measurement models and decision-making implications are discussed.

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## 1. Introduction

There are great expectations for what CRM can accomplish in terms of customer profile, product information, rapid response, predicting customer needs, retaining customers, conducting market research, promoting sale, and reducing cost. However, despite considerable organizational and executive commitments these expectations have not always been met. The

perception of a widening gap between the potential of customer relationship management (that is, what it can ideally achieve) and its actual accomplishments has increased the need for better understanding of the nature of the problem and for better measures of factors that influence outcomes. This research was designed to address the perceived gap that exists between the potential of customer representative management and what it actually accomplished in a large U.S. pharmaceutical company. Although this research is company specific, we believe that our findings have relevance to other CRM environments (similar to [20,32]).

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Merck-Medco is a wholly owned subsidiary of Merck and Co. Inc. that specializes in prescription benefit management. Merck focuses on discovering breakthrough medicines and subsequently manufacturing, marketing and selling them. Merck-Medco dispenses medications produced by over 60 manufacturers on behalf of its clients. Merck-Medco clients include major employers, government agencies, health management organizations, and insurance providers. The employees or members of these organizations are provided with a prescription drug benefit that Merck-Medco manages on behalf of its clients. Currently, Merck-Medco represents over 60 million Americans through its various clients and fills over 500 million prescriptions per year.

In this paper, we report the results of a collaborative effort between academe and practice to improve customer relationship management at Merck-Medco. With a few exceptions such as BP and IBM [13,31], very few studies of this kind are reported in research journals. This study was designed to accomplish two objectives that together will help management develop strategies for increasing CRM success. The first objective was to identify primary factors that result in member dissatisfaction with customer relationship management, more specifically with the call center. The second objective was to produce a reliable and valid set of measures that can be used by the company and others to monitor employee training effectiveness and remedial plans. The methodology, sample, and procedures were decided with these objectives in mind.

The subjects in this study were people who directly interacted with the system on a daily basis to make decisions and serve customers. Through close collaboration with the firm, we collected a large sample that represents over 75% of all user groups. The level of participation was influenced by the users' desire to improve the system and management involvement in the study. In the following section we will review the literature on CRM and clarify the construct. The literature review describes call center issues in a broader perspective of customer relationship management. Section 3 provides the background for Merck-Medco. Section 4 describes research methodology followed by Section 5 that describes data analysis and results. Discussion and conclusions are provided in Sections 6 and 7, respectively.

## 2. Customer relationship management

Customer relationship management incorporates information acquisition, information storage, and decision

support functions to provide customized customer service [28]. It enables customer representatives to analyze data and address customer needs in order to promote greater customer satisfaction and retention. It helps organizations to interact with their customers through a variety of means including phone, web, e-mail, and salesperson. Customer representatives can access data on customer profile, product, logistics and the like to analyze problems and provide online and rapid response to customer queries.

Companies use CRM not only to create a customer profile, but also to anticipate customer needs, conduct market research, and prompt customer purchase [31]. It is suggested that it costs up to twelve times more to gain a new customer than to retain an existing one [38]. A problem needs to be resolved on the first contact or the chances are the customer with an option to go elsewhere will never call back [44].

Because of the potential benefits, organizations commit significant hardware, software, and human resources and often restructure their processes in order to implement CRM. It took IBM a 4-year initiative to re-engineer its customer relationship management [31]. However, despite the extensive commitment, it is suggested that many of these systems fail to fulfill expectations [38,40,52]. The lack of proper integration of data across organizational functions is suggested as one of the reasons why many companies struggle with their CRM systems [46]. The interplay between technological, organizational, and individual factors also affects outcomes of these systems [27,29].

In a recent study, Goodhue et al. [23] examined challenges and opportunities of CRM in several organizations. They suggest that the growth of CRM is driven by the changing demands of the business for quality service, the availability of large amount of data, and the role of information technology. They suggest that in order to benefit fully from CRM, firms may need to undergo a major change in organizational culture and business practices. Organizational change requires significant commitment and has high potential in terms of opportunities and challenges. The authors recommend different levels of integration, transformation, and application for CRM depending on the organizational needs and maturity.

A significant portion of customer dissatisfaction is due to employees' inability or unwillingness to respond to service failures [43]. In the financial services sector, for example, more than 70% of customers defect because of dissatisfaction with service quality [8]. Organizations with service failure and recovery problems need to communicate commitment to custo-

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