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Understanding success and failure in customer relationship management

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Abstract

Customer Relationship Management (CRM) systems can help organizations manage customer interactions more effectively. Like many new technologies, CRM has been accompanied by vendor hype and stories of implementation failure. Work on critical success factors (CSFs) should encourage more appropriate implementation practice; however many CSF studies conclude with a list of factors but provide little further guidance. In particular, there is a need for stronger theoretical models of the entire CRM innovation process which can be used by managers to understand better the underlying causes of success and failure. This paper adopts a novel approach to this problem by firstly developing a conceptual model of CRM innovation and then converting this model into a dynamic simulation model. Some early simulation results illustrating changes in CRM benefits and organizational support over time are presented together with a discussion of the underlying causes and suggestions for how managers can counteract potential innovation failure.

Keywords: Customer relationship management; CRM; Critical success factors; CSF; Information system failure; Simulation

1. Introduction

The work presented here arose from concerns that the large and growing literature on critical success factors was not providing practitioners with the tools to enable more effective interventions in major systems implementations such as Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM). Large-scale integrated systems are by definition complex and difficult to implement. The systems have the potential to "join-up" organizations both internally (spanning functions) and externally (linking to suppliers, partners and customers) with the promise of more efficient communications and transactions and, in the case of CRM, greater customer insight and targeting, improved service and increased sales. But many instances of ERP and CRM have been criticized regarding the excessive time, cost and disruption of implementation and the sometimes limited benefits once the systems become operational. In response to this, a number of studies have proposed critical success factors, largely for the longer-established ERP technology, but latterly for the newer CRM too. Whilst such studies are welcome, providing a list of CSFs is only a partial aid to the manager tasked with implementing CRM successfully.

The work described in this paper addresses the next stage in improving understanding of large-scale information systems implementation in general, and CRM implementations in particular. Drawing on the long-established field of simulation, a new model for CRM innovation is developed and some early simulation results presented. The value of the model as a practical tool to aid managers faced with maximizing the benefits of CRM for their organizations is discussed.

2. Customer relationship management

CRM has developed as an approach based on maintaining positive relationships with customers, increasing customer loyalty, and expanding customer lifetime value (Blattberg & Deighton, 1996; Brassington & Pettit, 2000; Ahn, Kim, & Han, 2003). Understanding the needs of customers and offering value-added services are recognized as factors that determine the success or failure of companies. Kotler (1997) pointed out

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Table 1
Top ten ERP CSFs

ERP CSF	Mean score (out of 5)
Top management support	4.29
Project team competence	4.20
Interdepartmental cooperation	4.19
Clear goals and objectives	4.15
Project management	4.13
Interdepartmental communication	4.09
Management of expectations	4.06
Project champion	4.03
Vendor support	4.03
Careful package selection	3.89

that CRM principally revolves around marketing and begins with a deep analysis of customer behavior. Chaffey (2003) presents a three-stage model of CRM which shows how customer relationships can be managed. His model proposes that customers are first acquired via clear communication of a powerful value proposition. They are retained via good service; and the relationship extended via the delivery of tailored products/services to clearly defined customer segments. This view means that CRM uses information and communications technology (ICT) to gather data, which can then be analyzed to provide the information required to create a more personal interaction with the customer (Swift, 2001; Brohman, Watson, Piccoli, & Parasuraman, 2003; Pan & Lee, 2003).

From an operations perspective, Bose (2002) pointed out that CRM is an integration of technologies and business processes that are adopted to satisfy the needs of a customer during any given interaction. Whilst the potential benefits are attractive, CRM implementation must be managed carefully to deliver results. In order to successfully embed CRM, system users should be involved and expectations managed (Gefen & Ridings, 2002). Business processes need to be changed as well as technology (Swift, 2002; Goodhue, Wixom, & Watson, 2002; Campbell, 2003), with two interconnected processes, knowledge management and interaction management, seen as key by Zablah, Bellenger, and Johnston (2004). The former process uses marketing intelligence to build and maintain a portfolio of profitable customer relationships, feeding into the latter process which leverages the intelligence to ensure the quality of individual exchange episodes.

3. Success and failure

Like ERP before it, CRM implementations have often proved problematical:

"Customers complain that more than 50% of their CRM projects have failed — and the majority will underestimate costs by between 40% and 75%, according to Gartner" (Everett, 2002, p. 25).

The Gartner industry survey mentioned above identified over-selling of the technology coupled with underestimation of the organizational changes involved in becoming a customer-centric organization as being of particular concern. Success and failure are well-established areas of study in the information systems literature where a number of generic success models have been developed and tested in recent years (Davis, 1989; DeLone & McLean, 1992; Seddon, 1997; Rai, Lang, & Welker, 2002). More specifically, ERP implementations have been the subject of a number of studies aiming to identify CSFs (Holland & Light, 1999; Somers & Nelson, 2001; Akkermans & Van Helden, 2002; Hong & Kim, 2002). Somers and Nelson (2001) asked US executives to rank the ERP CSFs — producing a "top ten" in terms of the mean score (from 1 = low to 5 = critical) (see Table 1).

The ERP studies have been followed, more recently, by CRM CSF studies which are summarised using Wilson, Daniel, and McDonald's (2002) CRM lifecycle stages in Table 2.

These studies indicate a degree of consensus around a core set of CSFs, shown in Table 3.

Clearly there are similarities between ERP and CRM implementations and between their respective CSFs. Both are large-scale integration technologies, often packages supplied by large software vendors. Differences arise in terms of the back-office focus of traditional ERP versus the front-office focus of CRM. Whereas ERP is used by back-office staff (e.g. finance, HR and manufacturing), CRM is used by front-line staff (e.g. call centre, sales and marketing). And, by definition, an effective CRM system should enable an organization to gain greater insight into customer behaviour and preferences, whereas ERP analytics are more likely to focus on supply and demand for key resources and materials. In terms of the respective CSFs, comparing Table 1 with Table 3, there is common ground in areas such as the need for top management support and the importance of interdepartmental cooperation, communication and data sharing. Differences arise in terms of the significant emphasis placed on the competence and management of the project team in ERP, an aspect not so strongly identified in the CRM work. Similarly the ERP CSFs cover features related to the vendor and the software — an area that CRM CSFs tend not to address. In contrast the CRM research highlights the importance of knowledge management, culture change to develop a customer-oriented organization, and technological readiness — areas not so strongly highlighted in the ERP findings. Essentially CRM is about customer interaction and about learning about customers' needs and preferences in order to provide more appropriate products and services to customers in the future, whereas ERP has a stronger focus on making routine internal processes more efficient. This may suggest that the challenge facing CRM initiatives, that of engendering a significant culture change in many organizations, is greater than the (not insignificant) process changes heralded by the introduction of ERP.

Alongside, and complementing the work on success factors, is the body of work on information systems failure (Sauer, 1993; Keil, 1995; Sauer, Southon, & Dampney, 1997; Lyytinen & Mathiassen, 1998; Lyytinen & Robey, 1999; Irani, Sharif, & Love, 2001). However, the two streams differ in that the failure work is usually located in a wider theoretical setting. Sauer (1993) developed a model of information system innovation which emphasises the importance of the organizational context into which the system, developed by the project organization, is being introduced and the need to manage expectations and