



Strategic CRM Today

- 1.1 An Introduction to Strategic CRM – 4**
- 1.2 Why Managing Customers Is More Critical Than Ever – 5**
 - 1.2.1 Changes with Respect to Consumers – 6
 - 1.2.2 Changes with Respect to the Marketplace – 9
 - 1.2.3 Changes with Respect to the Marketing Function – 10
 - 1.2.4 Implications – 11
- 1.3 The Benefits of the Customer Value Management Approach – 11**
- 1.4 Evolution and Growth of CRM – 12**
 - 1.4.1 First Generation (Functional CRM) – 12
 - 1.4.2 Second Generation (Customer-Facing Front-End Approach) – 13
 - 1.4.3 Third Generation (Strategic Approach) – 13
 - 1.4.4 Fourth Generation (Agile and Flexible Strategic CRM) – 14
 - 1.4.5 Fifth Generation (Social CRM) – 14
- 1.5 CRM and the IT Revolution: The View from the Industry – 14**
- References – 16**

Overview

Peter Drucker defined the marketing concept as “the business as seen from the customer’s point of view.” This definition has undergone further refinement, such that the marketing concept became a distinct organizational culture, represented by a fundamental shared set of beliefs and values that put the customer at the center of a firm’s thinking about strategy and operations (Deshpande & Webster, 1989). These definitions emerged when the approach to marketing was predominantly about addressing the needs of customer segments, because distinguishing individual customers was far too difficult.

Following a market segmentation strategy, firms first divided the customers into sub-groups (segments) based on their needs and then designed standardized products and services to deliver to those segments. However, with market segmentation, the importance of individual consumer preferences got downgraded, for two main reasons. First, individual customer-level data were not available. Second, serving the needs of individual customers was expensive and, in some cases, impossible for firms.

Leaps in information technology and the ubiquity of the Internet have changed all that, together with vast improvements in flexible manufacturing and outsourcing practices. Today, understanding and meeting individual customer needs have become the key dimension on which firms forge their competitive advantage. With this shift, it is important to state clearly the underlying belief that can drive the success of firms: The marketing concept needs to make way for the customer concept.

» The customer concept is the conduct of all marketing activities with the belief that the individual customer is the central unit of analysis and action.

This definition emphasizes the analysis and measurement of marketing activities and consequences at the individual customer level. When marketing activities are directed at the individual, interactive relationships can be forged by the firm with individual customers. To establish a good relationship and customer experience every touchpoint between the company and the individual is important including the traditional point of sale but also social media platforms. Furthermore, because of the focus on the individual, customers take a more active part in the relationship by for example providing feedback to the firm or reviewing the product for other customers.

In this chapter, we introduce two key terms: customer value and customer relationship management (CRM). We also discuss changes taking place with respect to (1) consumers, (2) marketplaces, and (3) marketing functions. Rapid changes related to these forces drive firms to be customer centric and market driven. Simultaneously, there is a visible shift from product-based to customer-based marketing. In other words, firms are updating their processes and practices to align with the customer concept, and marketing plays the important role of forging relationships with customers so that the firm can stay relevant to the customer and accountable to its stakeholders.

1.1 An Introduction to Strategic CRM

At one time, marketing campaigns aimed mainly to increase customer loyalty to a product or service. The thought was that more loyal customers would engage in more repeat business, develop a larger tolerance to price increases, and therefore be more profitable to the firm. However, this pathway does not always hold. A very loyal customer may repeatedly call customer service with questions and constantly hunt for the best price on a product, taking advantage of every rebate

and sales offer. Ultimately, this customer actually costs the company money, rather than providing a source of profits. An important part of CRM is identifying the different types of customers and then developing specific strategies for interacting with each one. Examples of such strategies include developing better relationships with *profitable* customers, locating and enticing new customers who will be profitable, and finding appropriate strategies for unprofitable customers, which could mean terminating those relationships that cause a company to lose money. Until recently customer value was solely determined by their profitability

1.2 · Why Managing Customers Is More Critical Than Ever

in terms of sales. However, customer value can also be based on the customers' behavior in terms of referrals (the customers participation in referral programs initiated by the firm), knowledge sharing (information or feedback that a customer provides the company), and influence on other customers in forms of reviews and blogs.

The concept of *customer value* is critical to CRM. It refers to the economic value of the customer relationship to the firm, expressed as a contribution margin or net profit. As a marketing metric, customer value offers an important decision aid, beyond its ability to evaluate marketing effectiveness. A firm can both measure and optimize its marketing efforts by incorporating customer value at the core of its decision-making process.

Also given the concept of customer value we can describe CRM as the practice of analyzing and using marketing databases and leveraging communication technologies to determine corporate practices and methods that maximize the lifetime value of each customer to the firm.

However, in practice there are many different definition of CRM. Consulting firms, IT vendors and companies have created their own definitions and conceptualizations that continue to evolve. These can broadly be divided into three different perspectives: the functional level, the customer-facing front-end level, and the strategic level.

1. **Functional level:** Customer relationship management can be practiced on a very limited functional basis (e.g., sales force automation in the sales function, campaign management by the marketing function).
2. **Customer-facing front-end level:** This type of CRM focuses on the total customer experience. The goal is to build a single view of the customer across all contact channels and to distribute customer intelligence to all customer-facing functions.
3. **Strategic level:** This perspective tries to free the term «CRM» from any technology underpinnings and from specific customer management techniques. It describes CRM as a process to implement customer centricity in the market and build shareholder value. Here, knowledge about customers and their preferences has implications for the entire organization, such as for R&D or supply chain management.

This book follows a strategic perspective. That is CRM aims to gain a long-term competitive advantage by optimally delivering value and satisfaction to the customer and extracting business value from the exchange. Thus, knowledge about customers and their preferences is of utmost importance for the entire organization. From this standpoint.

CRM is the *strategic process of selecting customers that a firm can most profitably serve and shaping interactions between a company and these customers. The ultimate goal is to optimize the current and future value of customers for the company.*

Overall, strategic customer relationship management is a relationship management concept based on established marketing principles that recognizes the need to balance organizational and customer interests carefully. That is CRM is not a result primarily of technological solutions but is rather supported by them. These complex sets of activities together form the basis for a sustainable and hard to imitate competitive advantage: the customer-centric organization. CRM also involves automating and enhancing customer-centric business processes, including sales, marketing, and service. Instead of just automating these processes, CRM focuses on ensuring that front-office applications improve customer satisfaction, which results in increased customer loyalty and thus affects the company's bottom line (Nadeem, 2012). With CRM, a company creates an environment and flexible support system that can deal readily with issues surrounding product innovation, increasing customer expectations, acquisitions, globalization, deregulation, the convergence of traditional markets, and emergence of new technologies, privacy issues, and new customer contact channels. In the following section, we describe these main reasons and trends that underlie the growing importance of a strategic customer management approach.

1.2 Why Managing Customers Is More Critical Than Ever

The competitive landscape and the volatile economies that mark the modern world mean there is no way around the need to manage customers

profitably in the long term. It is a more pressing issue than ever before. Data are easily available, so much that firms are overwhelmed, and the amount doubles every 18 months. New trends, such as the rise of social media and apps, then arrive to create new CRM challenges for companies.

This section outlines the major factors that influence strategic CRM and have severe consequences for companies; it also introduces a customer-centric management approach and shows how the evolution of CRM points to a new understanding. Modern firms face gradual but still seismic changes with respect to three major forces: (1) consumers, (2) marketplaces, and (3) marketing functions. It is important to understand those changes to function successfully in the marketplace.

1.2.1 Changes with Respect to Consumers

There are nine major consumer trends, listed in **Table 1.1**, that are essential to understand the growing importance of a strategic approach to CRM. They comprise two main subgroups: demographic and behavioral changes. Demographic changes relate mostly to current developments in the growing diversity of customers; behavioral changes describe shifts in the way consumers act and react to market offers.

Demographic Changes and Increasing Consumer Diversity

A key development is the diversity of customers whom vendors confront. On the most basic level, this diversity is triggered by the changing demographic composition of the population, as can be observed in all industrialized nations, from Western Europe to the United States and Japan.

Changing demographics serve as a good indicator of the future marketplace, because providers must change their offerings when the demographic make-up, and thus the needs, of the marketplace change. Three important demographic trends are transforming the marketplace:

Aging Populations in Developed Countries

The birth rate in most developed countries has been falling for more than two decades. This phenomenon has been described as *deyouthing* (Department of Economic and Social Affairs-Population Division, 2010). The differences in median ages across developed and undeveloped countries thus can be quite dramatic. The median age in the United States for example is 38, whereas in India it is 26. Thus, in developed countries middle-age values and perspectives will increasingly dominate the national psyche – including older consumers’ generally favorable responses to relationship marketing approaches.

Increasing Diversity in Ethnicity

The closer integration of countries in Western Europe has made it easier for people to move and establish lives abroad. Such migration is often driven by better economic conditions in highly industrialized countries, such that it leads to great increases in cultural and ethnic diversity in countries such as France, England, the Netherlands, and Germany. The United States historically has been ethnically diverse, and that trend is on the rise: Hispanics are the fastest growing group, and in California and Texas, whites will soon become minority populations. This shift in the ethnic make-up of the U.S. society will result in a more segmented market place. Therefore, vendors will need to cater to ethnically diverse needs in housing, clothing, and

Table 1.1 Major consumer trends

Demographic changes and increasing consumer diversity	Behavioral changes
Aging populations, especially in developed countries Increasing diversity in terms of ethnicity Increasing individualization	Increased use of social media Increased use of apps Use of real time data Rise of convenience and self-service consciousness increased demand for experience and authenticity Rise of health and sustainability consciousness

food. Marketing communication will also have to reflect this diversity to serve their customers effectively.

Increasing Individualization

In many Western countries, approximately 50% of women work full time, a trend that places tremendous pressure on traditional notions of family. By losing an anchor, in the form of a full-time homemaker, the family is evolving as a unit of social and consumption analysis. Single-parent and dual-career households proliferate, and the need to define a separate existence or space encourages highly individualistic lifestyles and behaviors, even within family units. Thus, firms must increasingly consider the individual behaviors of family members who spend more time apart, rather than assuming household homogeneity. The marketplace will feel the impact of such demographic trends in the form of consumer choices, such as outsourcing of activities due to time constraints, more consumption on demand (24/7), and more consumption on the basis of symbolism and social group values. Singles may also seek out products and services that offer them social and emotional value. This also leads to an increased consumer heterogeneity.

Behavioral Changes

Companies that want to develop a customer-centric business strategy also need to consider the overall behavior of consumers.

Increased Use of Social Media

People increasingly engage in word of mouth on different social media platforms with friends, acquaintance but also strangers (Chaffey, 2016). Companies must realize this fundamental shift in consumer behavior and act accordingly, especially to take advantage of at least three key opportunities for companies. First, they can learn by listening to consumers online. Online buzz helps companies understand what consumers really want, and they can use these insights for product development, communication strategies, and success measures. Second, social media offers ways to improve the timeliness of customer feedback. People who use social media to interact with companies, such as through Facebook or Twitter, expect to receive from customer immediate responses management. In the end of 2016, Facebook had 1.72 billion active consumers per

month that spend about 50 min on the website each day often browsing company-run Facebook pages (Stewart, 2016). That means firms have great opportunities to interact with customers in channels that the customers themselves have chosen. Third, social media allow companies to execute new forms of communication strategies and advertising that integrate consumers. Consumers are no longer happy to be confronted with a message; they want to be an active part of it. However, there are also drawbacks related to this behavior. Negative word of mouth can spread faster. Thus, companies have to closely monitor consumers' feedback and identify complaints that have the potential to go viral. Furthermore, companies have to be aware of the increasing consumer insecurity regarding data security. Still, most consumers are willing to share their data with companies when they know that the company uses these to help them while ensuring that the data are kept secure. Thus, companies have to find a way to treat consumer data responsibly and show consumers the value of data sharing.

Increased Use of Apps

Mobile devices become more and more important in consumers daily lives. In 2015, one billion consumers owned a tablet and 1.86 billion used mobile phones. With the increased usage of these mobile devices the consumptions of apps increased as well (Chaffey, 2014). Apps are software applications that are designed to run on mobile devices. They can be downloaded from the respective app store of consumers' mobile operators (e.g. Apple or Google). Apple opened the first app store in 2008 and since then the app market expanded rapidly (Apple & TechCrunch, 2016). In 2016 Apple and Google offered around two million apps in their respective app stores. Initially apps were designed to help consumers retrieve information (e.g., weather, calendar, e-mail). Nowadays there are many different types of apps including utilities (weather, Uber), social networks (WhatsApp, Snapchat, Facebook), photos (Instagram), and games (Angry Birds, Candy Crush Saga). App usage is expected to increase even further in the coming years, because of new technological inventions such wearables and smart TVs. Therefore, many companies' such as CVS, Walmart, American Eagle, and The New York Times design apps to establish a mobile presence and to communicate to their customers.

Use of Real Time Data

The internet and mobile devices in particular allow consumers to stay connected at any in time and to receive data and information instantaneously. For example, to get the latest news consumers no longer have to wait for the newspaper the next day. Instead, they can simply check different news pages online. Online newspapers are usually updated several times a day whenever new information becomes available. Furthermore, consumers can check the availability of airplane seats, hotel rooms or cinema seats in real time and buy products right after the need arousal. This leads to a generally faster pace in consumers' lives. Another important aspect for companies is real time bidding. Companies may bid on advertising space in real time. That is, after a consumer visited their webpage they can retarget them instantaneously. This allows companies to be more precise concerning their target groups.

Need for Convenience and the Rise of Self-Service

As their time poverty increases, consumers seek more and more convenience, which has impacts on all aspects of business. Small convenience stores, like the Tesco Express format, that offer a limited assortment can cater to daily needs; formats such as Marks & Spencer's Food boast a wide offer of prepared meals and ready-to-cook ingredients. In their relationship with a vendor, consumers demand a more active role by the company. It can no longer just answer questions; for example, many financial institutions now offer customized monthly reports of customers' financial activity.

At the same time, demands for convenience have led to the rise of self-service options. When they can, people want to take care of their own needs without hassle. Online banking platforms give consumers the means to buy stocks and search for information on their own. In retailing, shoppers can use dedicated self-service check-outs, scan their basket items, and pay without further assistance. The overall notion of online shopping, conducted outside regular store hours, has added significantly to the development of a stronger orientation toward convenient offers and 24/7 access to goods. In summary, companies must do both: Empower consumers to perform minor services themselves by offering

convenient self-service options but be consistently available when customer problems grow more complex.

Increased Demand for Experiences and Authenticity

Because of the new technological advances and the increasing competition, customers are becoming more demanding. They strive for individuality and self-realization. Goods and services are therefore no longer sufficient to differentiate the brand and satisfy the consumer. Instead, companies should create memorable events and experience that personally engage the consumer. For example, consumers prefer an experiential retail environment, where shopping is more than a transaction. To do so some grocery stores provide cooking recipes and use bakery flavor in their aisle. Another example is the increasing number of cinemas that offer comfortable chairs and gourmet food and drinks. Offering experiences is thus one way for companies to position and differentiate themselves when the physical product and service are no longer sufficient. However, every time consumer expectations are met, companies raise their bar, so that once delighted customers are even harder to satisfy at the next encounter. Thus, firms in industrialized economies are struggling to satisfy customers.

Another megatrend is consumers' quest for authenticity. The improved information transparency in the digital age provides consumers with a better understanding of marketers' persuasion tactics. As a result, consumers become increasingly skeptical towards any form of brand communication. Thus, companies should be transparent, honest, and consistent in their communication as well as reflect the company's values.

Increased Health and Sustainability Consciousness

Customer are increasingly conscious towards health and sustainability issues. That is, they believe that companies should not only care about profits but also operate responsible and address social and environmental issues (Sustainable Brands, 2015). However, simply communicating a sustainable goal is not sufficient, the goal also has to fit to the company or brand, must be credible, and well implemented. Consumers furthermore look for fresh, healthy and less processed options

while shopping. Especially millennials prefer healthy and organic products (Solomon, 2015). Due to the technological advances, consumers are nowadays able to inform themselves about the product and company, even at the point of sale. Mobile technologies built into smartphones, for example allow shoppers to scan barcodes, get all the information they need about the product including their sustainability and conduct a price comparison on the go. It is a new form of transparency, and companies must get accustomed to it.

Consequences

Changes in demographics and the overall consumer lifestyles have powerful impacts on customer behavior. Customers generally take greater demands on firms. They expect companies to provide more than just goods and services. Moreover, they want them to be authentic and sustainable while still offering the best deal. Thus, it becomes increasingly hard for companies to satisfy customers.

Furthermore, marketers must be extremely wary of making heavy time demands of consumers. Generally speaking customers have more power relative to vendors as their technological aptitude and product knowledge continue to increase. Diversification and time scarcity increase the pursuit of more personalized products and services that also offer the very best deal. This trend is well corroborated by the increasing inefficiency of traditional mass marketing approaches (which we discuss subsequently). Seemingly paradoxically, consumers' time scarcity and need for consumption-on-demand make them good targets for *well-crafted* relationship strategies.

Firms that can satisfy this demand will thrive in this new environment. To do so companies have to engage the customer and respond to their individual needs.

The reality of a changing customer environment is underscored by the results of a survey by McKinsey (2014), which indicates that 69% of the participating CEOs believe that customer engagement is of utmost importance.

Demographic and behavioral shifts mean that demand is becoming more and more heterogeneous, individualized, and fragmented. A mass marketing approach focused on pushing similar products to everyone thus has become a weak proposition.

1.2.2 Changes with Respect to the Marketplace

Until recently, business was characterized by its manufacturing. The focus on goods rather than services or experiences led to mass-market, product-focused marketing strategies, in which businesses tried to sell the same product to as many people as possible. This strategy increased the cost of acquiring new customers but lowered their switching costs. But globalization of the marketplace, the growth of services economies, and technology advances mean that business has undergone some key changes and developments.

Intensified Competition for Customers in Fragmented Markets

On the one hand, as trade barriers fall and geographic boundaries are redefined, by both established and emergent trading blocs, the idea of a location advantage is being eroded for most companies. Access to markets is no longer localized, so demands for logistics management and distribution partnering are becoming more significant.

On the other hand, in a developed market in which supply exceeds demand, customers have differentiated needs. To address customers' particular needs, the market must be broken down into multiple segments, which facilitates individualized marketing.

Difficult Differentiation

As mentioned before the quality of objective product attributes has risen substantially and is no longer a source of competitive advantage for most companies. Brand loyalty founded on a product differential is a relative, not an absolute, achievement. As products' quality differentials diminish, companies seek competitive advantages through their closer, service and experience-focused relationships.

A case in point is an example from the grocery industry, which continues to experience the rise of private labels (Hartman Group, 2016). Private labels are growing worldwide, such that in the US approximately 18% of all retail sales are now generated by private labels. In Switzerland private labels even account for 53% of the total retail sales. The objective quality features of private-label products in many cases are entirely comparable to national brands. For example according

to Nielsen 75% of US consumers perceive private labels as a good alternative to national brands and hence find fewer reasons to pay a premium for national brand equity.

Consequences

A good product is not sufficient to compete in a world of very high product standards. As products and services improve and become similar in their objective performance, companies must question traditional marketing models. They start to shift away from a transaction-based model to focus instead on enduring commercial relationships. In turn, firms can learn about new and latent customer preferences by observing their purchase and behavioral histories and using social media and review platforms to gather consumers' opinions. Developments in mass customization mean firms also can offer genuine value to customers through customized product and service propositions.

As these changes drive the marketplace to become more relationship-oriented, the primary way to maintain market share is to realign business strategies and become customer centric. Thus, CRM is critically strategically important in company positioning in today's market.

1.2.3 Changes with Respect to the Marketing Function

Finally, changes in technology and society also lead to shifts in the role of the marketing function. These shifts are strongly affected by changes in the usage and availability of classic and new media channels, as well as a dramatic reduction in the effectiveness of marketing activities.

Media Dilution and Channel Multiplication

The nature of marketing communications is undergoing significant shifts. Brand managers, service providers, and product manufacturers once used mass communication vehicles (print, TV, radio) as their prime carriers. The messages focused on product and price, with little regard to heterogeneity in customer needs or wants. Communication based on mass advertising is largely a thing of the past though. Customer needs and wants have simply become too diverse for marketers to satisfy them with a single, all-purpose

approach. Also, the consumption of media outlets is shifting. Radio and print consumption are slowly decreasing, whereas television viewings remains relatively stable and online channels are sky rocking. This has significant consequences for the companies' marketing strategies. Furthermore, more and more consumers stream TV shows on demand rather than watching them on cable TV. Netflix or Amazon Prime services for example allow users to watch their favorite television shows, regardless of the network that aired them, at their convenience and on the device they choose (e.g., Apple's iPad). The 'video on demand' market is expected to reach a revenue of US\$ 17.9 million in 2017 and US\$ 23.8 million in 2020 (Statista, 2017).

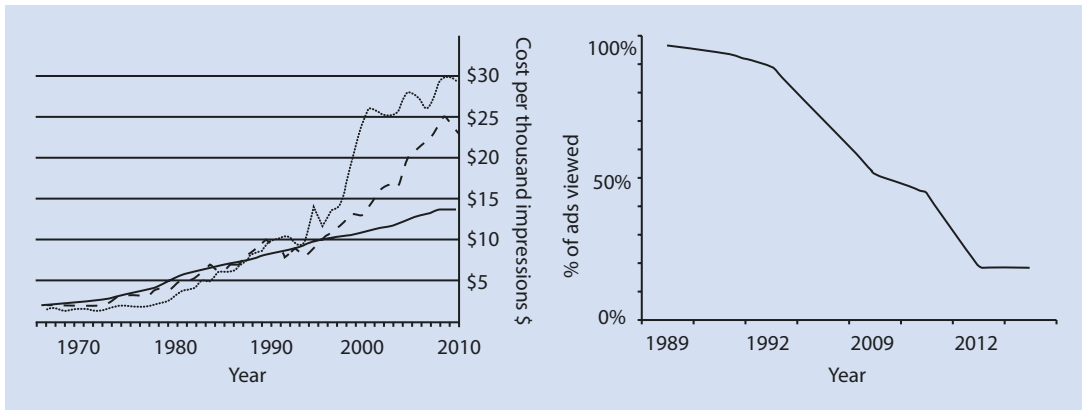
Another important trend is the rise of YouTube. Rather than watching television shows younger consumers tend to watch videos on YouTube. In 2015, around 400 h of video are uploaded to YouTube every minute, ten times more than in 2011 (Youtube, 2017).

Decreasing Marketing Efficiency and Effectiveness

Pressure has been growing on corporate marketers to revamp their departments to demonstrate how marketing investments improve the company's bottom line profits. In fact managers are more and more under pressure to justify their marketing spending. The famous saying by John Wanemaker (1838–1922)—«I know that half of the money I spend on advertising is wasted, I just don't know which half»—has probably never been as true as it is today. We thus can understand the demands of shareholders and CFOs who want better accountability and documentation of the value added by the marketing function.

The problem stems in part from previous marketing practices that focused on acquisition rather than retention, price rather than added value, and short-term transactions rather than the development of lasting, profitable relationships. The proliferation of new contact channels contributes to decreasing efficiency and effectiveness as well. With the emergence of more sophisticated and knowledgeable customers, the existing situation includes flat or increasing costs of contact but decreasing consumer responses (see ■ Fig. 1.1). The impact of advertising in any medium has lost some value. The phenomenon of media proliferation is paralleled by the difficulty of communicating meaningfully with customers. As more and

1.3 · The Benefits of the Customer Value Management Approach



■ Fig. 1.1 Increasing marketing costs and decreasing advertising effectiveness (Source: Teixeira, 2014)

more media channels become available, and firms use more of them, the challenge of channel coordination increases. The complexity associated with coordinating messages across greater numbers of channels thus increases exponentially.

Another reason for the decreasing advertising effectiveness is the streaming behavior of consumers. Streaming services usually do not show any ads. Also, consumers are increasingly using ad blocker when surfing online. These trends minimize consumers' exposure towards ads. Thus, companies have to think about new ways to reach and interact with the customer.

Consequences

The pressure on the marketing function is intense. The shift from a one-sided unilateral conversation between the firm and the customer to a multilateral conversation between several customers and the firm increase the complexity of the marketing function even further. Marketers have to carefully listen and monitor consumer reviews and feedback provided online. To engage the customer they also have to be open to the new customer role as an interactive part in the customer firm relationship as well willing to give up some of their control. Furthermore, they have to find new ways to interact with the customer. Otherwise, they will take a back seat and effectively be restricted to advertising and media planning. Also marketing manager need to adjust their marketing strategies to overcome the increased ad skepticism and ad avoidance of consumers by contacting the consumer through multiple channels and being more transparent and honest.

1.2.4 Implications

Given all these changes, the marketing scenario today makes greater demands to learn about customer preferences, value provision, and product and service customization. Product-centric strategies cannot address these advanced requirements, but customer-centric strategies are emerging in response. In exactly this environment, CRM, if executed correctly, represents a formidable competitive means to satisfy new demands. Marketers need a management approach that realizes increasing customer heterogeneity, addresses concerns about marketing accountability, puts available data to good use, and uses customer profitability as a key objective function. We term this approach customer value management.

1.3 The Benefits of the Customer Value Management Approach

A successful data-based CRM system, with customer value as its driving metric, empowers a company to perform ten actions that will lead to strategic advantages.

1. **Integrate and consolidate customer information:** With relevant customer information and client histories, the treatment of a customer remains consistent across contact and service channels.
2. **Provide consolidated information across all channels:** The entire company must assist in timely and relevant communication with customers, matching their needs with the most appropriate product.

3. **Manage customer cases:** This action provides the right person with management control in a planned and transparent manner, ensuring that appropriate responses occur at the proper time.
4. **Personalize:** If possible, personalization should span both the service and products offered to each customer to satisfy his or her special expectations.
5. **Automatically and manually generate new sales opportunities:** Measures of customer profiles can rely on predefined business rules or contact between a customer and an employee.
6. **Generate and manage campaigns:** Companies should provide sufficient flexibility to adapt to changes in customer information or behavior.
7. **Yield faster and more accurate follow-up:** Such efforts include sales leads, referrals, and customer inquiries.
8. **Manage all business processes:** The firm should introduce a central point of control to ensure all business processes are executed in accordance with predetermined, effective business rules.
9. **Give top managers a detailed and accurate picture:** All members of the top management team should be aware of all sales and marketing activities.
10. **Instantly react to changing market environments:** To understand the develop-

ment toward data-oriented customer value management, it is helpful to take a closer look at the evolution and growth stages of CRM in recent years.

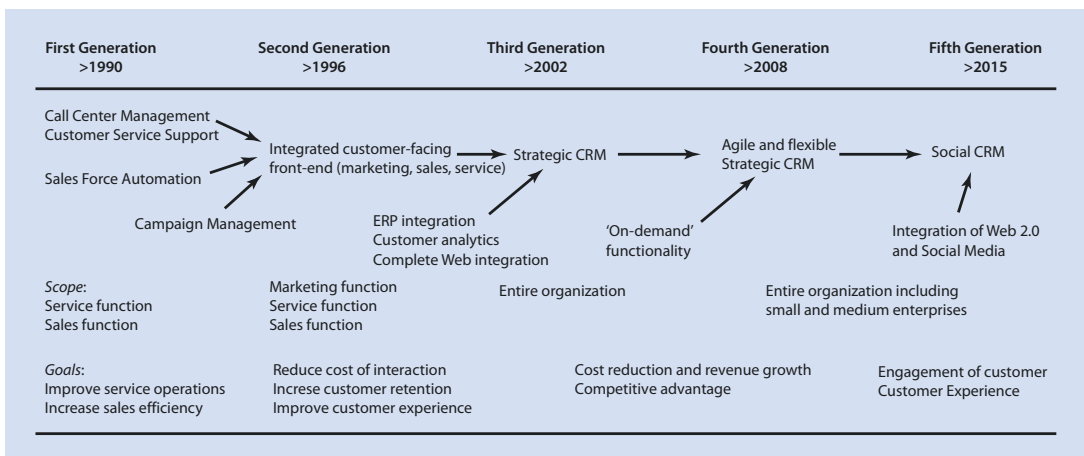
1.4 Evolution and Growth of CRM

This section describes the stages of development of CRM, from the 1990s until today. It has grown from a tactical marketing tool to a strategic element in all marketing decisions. The growth of the Internet also has increased the adoption rate of CRM in many industries. To provide a historical perspective, ■ Fig. 1.2 depicts a timeline, and this section describes each of the phases in that timeline.

1.4.1 First Generation (Functional CRM)

The collection of activities that later took on the umbrella acronym CRM originally developed as two independent product offerings:

1. **Sales force automation (SFA):** These products addressed presales functions such as maintaining prospect and customer data, telemarketing, generating leads, creating sales quotes, and placing sales orders.
2. **Customer service and support (CSS):** This function addressed mainly after-sales



■ Fig. 1.2 Timeline of the CRM evolution

1.4 · Evolution and Growth of CRM

activities, such as help desks, contact and call centers, and field service support. The CSS databases often worked with specific customer information, isolated from other systems.

Although fragmented and poorly integrated with the back office, early SFA/CSS applications delivered the promise of sales and service improvements, though their combined market niche remained small. The market for enterprise resource planning (ERP)—a tool designed to integrate all company departments and functions within a single computer system that served every department's needs—instead was growing.

1.4.2 Second Generation (Customer-Facing Front-End Approach)

Innovations in CRM during the 1990s matched those of ERP, including the integration of different independent subsystems into one package. CRM technology was expected to fill the gaps left by ERP functionality and address the business needs of the company's customer-facing front end.

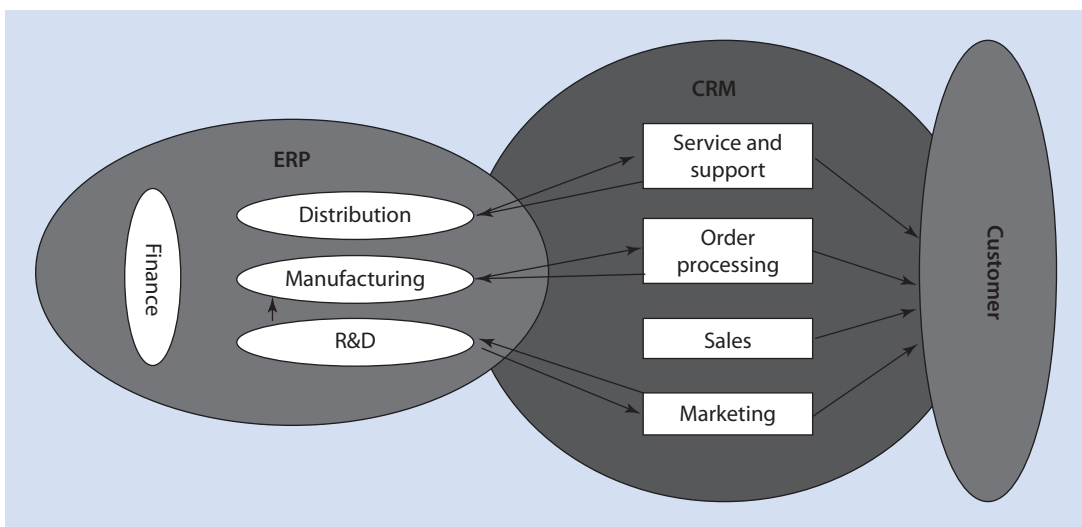
The goal was to create a single view of all interactions with customers, independent of the purpose of that contact (e.g., pre-sales, sales

transaction, post-sales service) or its means (e.g., telephone, e-mail, Internet). For the most part, this goal was not achieved during the 1990s, leading to increasing disillusionment with CRM technology and implementations. Customer expectations in this period far exceeded the realized benefits of CRM technology. Industry observers began talking about the demise of CRM. Even as the Internet fuelled new expectations, it became clear that revenue increases through technology were difficult to implement, realize, and measure, without a more strategic understanding of the process (■ Fig. 1.3).

1.4.3 Third Generation (Strategic Approach)

By the end of 2002, the CRM market had started to pick up, and the gap between customers' perceived value and value realized was closing. Organizations learned from experience and their failure to implement prior versions of CRM. The best organizations began to focus on integrating customer-facing front-end systems with back-end systems, as well as with the systems used by partners and suppliers (see ■ Fig. 1.3).

The integration of the Internet technology helped to boost CRM. Many organizations realized that they could benefit by adopting a strategic



■ Fig. 1.3 Integration of front-end customers with back-end systems

CRM approach rather than blindly implementing technology-based solutions. Companies recognized the eventual goal of CRM: to grow revenue, not just control costs.

1.4.4 Fourth Generation (Agile and Flexible Strategic CRM)

At the end of the first decade of the twenty-first century, we face the start of the fourth generation of CRM. Strategic CRM is widely accepted and established as an essential element of the marketing strategy, and an ever-increasing number of small and medium-sized companies adopt this management tool and its corresponding technologies to drive their business. Agility, flexibility, and low fixed costs are key. The emergence of social media and increased self-service, as well as the growing prevalence of web-based services, mean that customer empowerment is an emerging topic. In particular, CRM technology on a pay-per-use basis can provide on-demand functionality.

1.4.5 Fifth Generation (Social CRM)

The development of the new technological advances and the unprecedented reach of social media gave rise to the fifth generation of CRM. Social CRM is characterized by the engagement of the customer through the integration of the web 2.0 and social media and by the use of data driven insights to optimize the overall customer experience. Companies encourage active customer participation online, while they use software applications to track real time social data. This information enables companies to offer relevant content and personalized messages to specific customers and to improve the customer experience at each touchpoint along the customer journey. Additionally, the combination of data across different social media platforms allows companies to determine the customer value not only based on profitability but also based on their online behavior in terms of referrals, knowledge dispersion and influencing other members of the social media community.

1.5 CRM and the IT Revolution: The View from the Industry

Considering these major market and technology shifts and their contributions to the rapid development of CRM as a strategic management tool, we also want to shed light on what industry executives think of this evolution, in terms of how it appears in practice.

» In my discussions with senior executives around the world about the power of IT systems and networked computing, I consistently make the point that the real revolution isn't about the technology itself. The real revolution here has to do with institutional change—the fundamental transformation of time-honored ways of doing things. (Lou Gerstner, former CEO IBM)

Consider a comment from a CRM consultant:

» One of the reasons I prefer to deal with SMEs [small and medium-sized enterprises] in implementing CRM is that I always have direct access to the CEO of the business to ensure they understand what CRM is about. We always put the strategies together first, then find a technology solution that makes carrying out those strategies easier. I strongly believe the much-touted 70% failure rate of CRM projects has resulted from a too-heavy reliance on technology.

There is still a major issue in CRM of people not understanding what it is all about—which is listening to the customer and communicating with them in a manner most likely to increase their satisfaction and win repeat and referral business. Unfortunately, I believe this reliance on technology has been driven by the big CRM information technology players. CEOs of major companies see it as something that they simply must do, without understanding what it is all about.

This view of CRM represents a substantial adjustment. Some managers initially became disillusioned with the process and results of implementing CRM solutions and systems. They felt that they reaped limited benefits from new IT systems, faced resentment among employees

when implementing them, and gained little in terms of being able to offer added value to customers.

This negative reaction to CRM as it was practiced was based on an IT view of the world. Too often, the introduction of CRM has been regarded as a technological project and temporary activity. Managers simply believed that CRM equaled software or technology, though nothing could be further from the truth. With these misconceptions, it is no surprise that many CRM efforts never met the expectations of the companies implementing them.

For CRM to be implemented successfully, top management must integrate all corporate functions and focus them on customer value. The growth of CRM also should not be equated with the growth of what has been called the CRM industry, which consists mainly of IT vendors. Darrell Rigby, from Bain & Co., researches the use of management tools and finds that both CRM tool usage and satisfaction with CRM have been relatively high in recent years. This finding implies that companies may have learned to view CRM as a strategic marketing element; they are realizing its untapped potential. The future thus is bright for CRM, and with the aid of appropriate IT systems, CRM can become a preferred marketing approach for many firms.

Summary

The increasing availability of technology allows firms to collect and analyze customer-level data and interact with customers simultaneously. Yet rapid changes are taking place in the environment in which firms operate, which make the development of new market strategies and a shift from a product focus toward a customer-centric offer necessary. These changes, as introduced in this chapter, pertain to (1) consumers, (2) marketplaces, and (3) marketing functions.

On the consumer front, growing diversity reflects the changing demographic composition of market populations. Consumers are becoming more demanding – goods and services are no longer sufficient to satisfy them; they also suffer increasing time pressures, exhibit more technology savvy, look

for more convenience, and use social media. The marketplace is characterized by more intense competition, greater fragmentation, and increasing difficulties in terms of differentiation. These changes have driven the marketplace to become relationship-based and customer-centric. Traditional advertising is becoming less effective for example due to increased streaming and the use of ad blockers. At the same time, interactions and relationships with individual customer grow in importance. For firms, this means they should collect and analyze information about consumers, their needs, and their preferences, which also sets the stage for a successful CRM implementation.

? International Perspectives: Did You Know?

1. Since Facebook, Twitter and YouTube are banned the most important social Networks in China are Weibo and WeChat. In April 2017 Weibo (a mix between Facebook and Twitter) reached 313 million active users, while WeChat, China's most widely used messaging app, got even 889 million active users. In order to enter and successfully compete in China, foreign companies thus need to make their brands present and recognizable on these social media networks. Doing so will help them to gain insights about Chinese customers and to interact with them. Three western companies that already use Weibo successfully are Coca-Cola, Lancôme and Luis Vuitton (Facebook et al., 2017).
2. More and more customers are joining some sort of social media network. In February 2017, there are 3.773 billion active users worldwide. Compared to 2016 the number of active users increased by 21%. The most popular social media network by far is Facebook followed by WhatsApp. The relative number of active users (compared to the total population) differs however greatly across the various countries. For example, in Kenya, Liberia, and Madagascar the penetration of social

media networks in less than 10% whereas in Malta or New Zealand it is much higher amounting to 84% and 70% respectively (Smartinsights, 2015).

? Exercise Questions

1. What is customer value, and why is this term essential for CRM?
2. What makes CRM the preferred approach to marketing in the modern information age?
3. List some key changes in the business environment. How are these changes driving the shift from product-based marketing to customer-based marketing?
4. Which technologies influence strategic CRM, on both the consumer and the company sides?
5. How has CRM evolved in the past decade? List some primary changes and their effect.

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