Strategic CRM

V. Kumar, W. Reinartz, *Customer Relationship Management*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-662-55381-7_3

3

Overview

It is essential to understand that strategic CRM consists of multiple dimensions. Yet many companies instead think of CRM only in terms of technology, so they look for a software-based quick fix, without examining the key elements of successful CRM. That is why we can find so many CRM failures. Too many projects have been abandoned, with investments written off as wasted. But just as building a house requires an architectural plan, implementing CRM must be preceded by a sound strategy.

In this chapter, we therefore present CRM as a business strategy and company-level philosophy, such that knowledge about customers and their preferences have implications for the entire organization. In this customer-centric business philosophy, the customer is an asset, so the focus shifts away from the product and toward the customer as the source of wealth generation. The goal of strategic CRM is to deepen knowledge about customers actively, then use this knowledge to shape the interactions between a company and its customers and maximize the lifetime value of customers for the company.

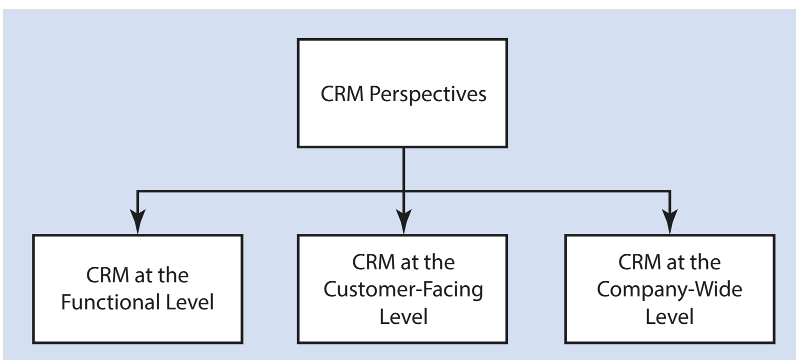
We present key components of a successful CRM strategy and explain each of them using real-life case studies. We then deal with ways to define and develop a CRM strategy, keeping its key components in mind. We stress the importance of the integration of various functions and an enterprise-wide commitment to the success of CRM initiatives.

3.1 CRM Perspectives

In order to understand and develop a CRM strategy, it is important to clearly define what CRM actually means. This is particularly relevant since the field of CRM remains under development and consulting firms, IT vendors and companies have created their own definitions and conceptualizations that continue to evolve. These different definitions and conceptualizations can be grouped into three perspectives of CRM: the functional level, the customer-facing level, and the company-wide level, as illustrated in Fig. 3.1. We will discuss these perspectives next.

1. **Functional level:** If viewed from a functional perspective, CRM refers to the set of processes that must be in place to execute customer related tasks, such as sales force automation or online campaign management. This CRM perspective is often combined with a strong technology orientation that arises when vendors need to position their particular product. For some vendors or buyers, functional CRM is nearly synonymous with technology.
2. **Customer-facing front-end level:** In contrast, from the customer-facing perspective, CRM is a set of activities that provides a single view of the customer across all contact channels. This type of CRM evolves from practitioners' need to manage different channels consistently in order to focus 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 (marketing, sales, service, etc.). This view stresses

Fig. 3.1 CRM perspectives



the importance of coordinating information across time and across contact channels to manage the entire customer relationship systematically.

3. **Company-wide level:** If CRM is viewed from a company-wide level perspective, the primary objective is to uncouple the term «CRM» from any technology underpinnings and from specific customer management techniques. Instead, this perspective views CRM as a strategic orientation to implement customer centricity within the entire organization and create shareholder value. Here, knowledge about customers and their preferences has implications for all parts of the organization including functions that are not boundary spanners per se, such as R&D or supply chain management.

When CRM is adopted at the company-wide level, it represents strategic CRM. As such, CRM aims to gain a long-term competitive advantage by optimally delivering value to the customers and extracting business value from the relationship with the customers. Therefore, this book defines CRM from a strategic perspective as follows:

» 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.

The key components of this definition include:

- **Strategic process:** The CRM activities are initiated and managed from the very top of the organization. Strategic initiatives by definition involve multiple, if not all, organizational functions. CRM does not belong to any single department but rather demands contribution and reinforcement from all corporate functions. There is no place for a *silo mentality* that discourages information sharing and condones the idea that one function «owns the customer». Furthermore, CRM is a continuing *process* that cannot be handled as just another software implementation project. It must be viewed as a continuous effort to become an ever more customer-centric company.
- **Selection:** When the economic value of a customer is the basis for resource allocation, firms focus on their most profitable or potentially profitable customers. It is not about denying services to certain customers but rather about recognizing a fit between the firm's offering and a customer's desire, behavior, and characteristics.
- **Interactions:** The relationship between the customer and the firm takes the form of an interactive dialog. Information and goods are exchanged, and the exchange evolves as a function of past exchanges. This is very different from a purely transactional scenario in which firms sell one-time products and services to customers. Moreover, it recognizes the fact that the customer journey involves many touchpoints before it eventually results in a transaction (Lemon & Verhoef, 2016).
- **Customers:** The term is applied broadly here. Depending on the industry and company, a customer can be an individual account, one or several segments within a market, or an entire market. Customers include not only end users but also intermediaries, such as distributors, retailers, and so on. Generally, firms are moving away from single, all-purpose solutions and starting to satisfy smaller segments with better targeted products, services, and communication propositions. Although segmentation is nothing new, modern CRM aims at targeting individual customers with customized product offerings («segment of one», SAS, 2015).
- **Current and future value of the customer:** Optimizing current and future value means that firms move away from extracting profit from single transactions and work to maximize profits over time and a series of transactions. Firms want to maximize customer equity—that is, the value of all customer relationships. As discussed in ▶ Chap. 2, value extracted from customers includes direct contribution from purchases (customer lifetime value), but increasingly also indirect contribution from referrals, influence, and knowledge sharing (Kumar et al., 2010).

In a nutshell, CRM is a management concept based on established marketing principles that recognizes the need to balance organizational and customer interests carefully. CRM is not a result primarily of technological solutions but is rather a strategic orientation supported by them. These complex sets of activities together constitute the basis for a sustainable and difficult to imitate competitive advantage, the customer-centric organization. With strategic 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, emergence of new technologies, privacy issues, and new customer contact channels.

3.2 Elements of a CRM Strategy

After having defined strategic CRM and its scope, this section will discuss key elements of a CRM strategy. It emphasizes key aspects that a CRM strategy should contain in order to serve as a meaningful guideline for CRM implementation initiatives. A good CRM strategy should address the following five elements (Becker, Greve, & Albers, 2009; Finnegan & Currie, 2010) (Fig. 3.2):

1. CRM vision
2. Culture of customer orientation
3. Alignment of organizational processes
4. Data and technology support
5. CRM implementation

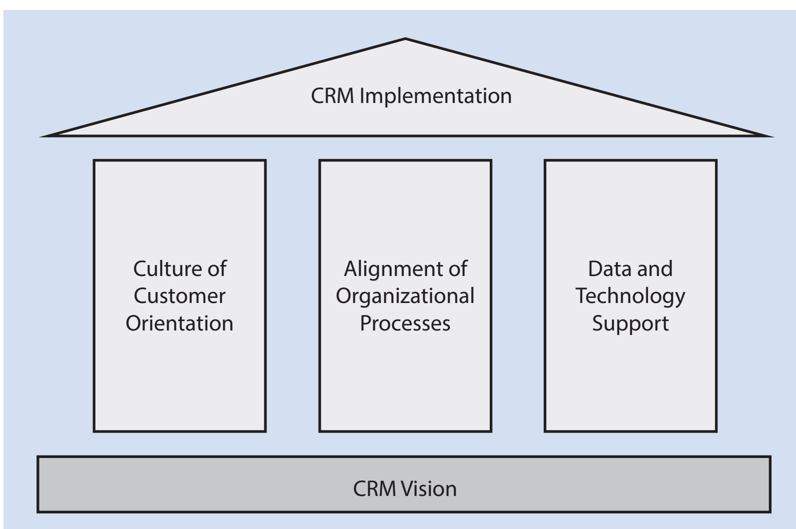
3.2.1 CRM Vision

Any initiative around CRM should be based on a clear vision of what the company aims to achieve with their customer relationship management efforts. Therefore, an essential component of the CRM vision should focus on the customer value. Based on the discussion above, we suggest that a key part of the vision should focus on the topic of value. In fact, building on the concept of customer value, we can infer that the CRM vision is to build an organization in a manner that all actions are geared towards maximizing the lifetime value of each customer to the firm. This involves acquiring and retaining strategically important customers and develop, communicate, and deliver value propositions that meet or exceed customer expectations. With this vision, an organization can focus on developing the key asset of the enterprise that matters in the long term, progressively deeper relationships with valuable customers (Edeling & Fischer, 2016; Srivastava, Shervani, & Fahey, 1998).

3.2.2 Culture of Customer Orientation

Customer orientation is the set of organizational values, beliefs, and strategic actions (Kohli & Jaworski, 1990; Ruekert, 1992; Deshpandé, Farley,

Fig. 3.2 The elements of a CRM strategy



CRM at Work 3.1

Capital One: CRM Business Model

To appreciate the key role of the top management in a customer-oriented strategy, consider the example of Capital One, headquartered in McLean, Virginia. One of the fastest growing financial corporations in the United States, Capital One was founded in 1988 and went public in 1994. From the moment of its IPO to 2000, its stock price increased by 1000%, and the company grew at an average annual rate of 40% (excluding mergers and acquisitions). In 2001, it handled more than $24.2 billion in loans and 36 million customers worldwide, all serviced by more than 20,000 employees. How was such phenomenal growth possible?

The CEO Richard Fairbanks asserts that Capital One's business model is founded on a simple, crucial premise: Every customer carries a specific and unique credit risk and potential revenue profile, and those profiles determine the customer's risk–return profile, according to the company. The better the company can understand and assess a customer's specific risk, the better it can manage that risk and earn returns. Furthermore, as the company gains a better understanding of individual customers, it can tailor its products better to their needs. Low risk and high returns for the company, combined with high satisfaction for the customer, ideally go hand in hand.

Capital One has succeeded not only in subscribing to a customer management–based business model, which recognizes the heterogeneous needs of different customers, but in integrating and aligning its structure and functioning with its strategy. For example, it uses the extensive information it gathers to acquire the type of customers whom Capital One can serve most profitably. Managerial and employee evaluations thus are tied to customer retention and customer profitability measures. Overall, Capital One is a remarkable example of a company that has implanted customer management principles into the mindsets of all its members.

& Webster, 1993) that enable the implementation of customer management principles. It is characterized by a top management belief and commitment where the customer is the center of all activity (not the product, geography, etc.). A successful CRM strategy starts at the top (see the CRM at Work 3.1). The main reason why many CRM efforts have failed is due to the lack of commitment from top management. If top management fails to establish a customer oriented culture, an appropriate organizational structural and reward system, this can result in insignificant or even negative CRM outcomes (Chen & Popovich, 2003). Customer orientation recognizes that customers are heterogeneous in their needs and value, so the firm is ready to treat different customers differently. Finally, it recognizes that no single organizational function can be equated with CRM; rather, all relevant organizational functions have to be aligned with this CRM strategy, which in turn demands a longer-term view of customer value.

The following questions can help assess whether the company has established a customer-oriented strategy:

- Does the top management subscribe to a customer-centric philosophy, and does it act as a role model?
- Does the entire organization engage in the implementation of this philosophy?
- Does the company attempt to establish win–win relationships with customers?
- Does the company recognize that customers differ in their needs and in their value to the firm? How is this reflected in its interaction with customers?

3.2.3 Integration and Alignment of Organizational Processes

In the context of strategic CRM, the integration and alignment of organizational processes involve the organization-wide creation and synchronization of processes, systems, and reward systems that enable the implementation of customer management principles (Reinartz, Krafft, & Hoyer, 2004).

The notion that CRM affects only activities and processes in sales and customer services often prevails even today. However, a customer's experiences while interacting with the company's sales or service staff also depends on internal activities, such as product development, IT support, and human resource management. Most firm departments and functions must be involved in a strategic CRM initiative. The notion that sales, marketing, or IT performs CRM is, quite simply, false. Rather, strategic CRM works best for organizations that adopt cross-functional processes rather than functional silos (see the CRM at Work 3.2).

CRM at Work 3.2

Capital One: Interfunctional Management

Capital One entered the UK market in 1996 and quickly emerged as a major issuer of credit cards. By aligning its organizational process with its customer-focused strategy, Capital One built the backbone for its CRM success. In particular, Capital One demands close cooperation between its back-office and front-office departments' activities, all oriented toward customer service. Back-end activities such as account management, strategy, and product testing—which the customer never sees—contribute substantially to the performance of front-end activities and also incorporate front-end agents' feedback.

As an example, consider the cooperation between front-end service operations and the marketing and analysis department, which is responsible for new product development. Operations cooperates closely with marketing and analysis in the new product introduction process, such that the latter designs new products, develops marketing material, and follows up on customers' responses, while the former collects feedback from customers and makes improvement suggestions. Information from operations also improves the net present value models that provide sophisticated decision-making aids. Marketing and analysis then works closely with operations to see how products work—such as by listening to comments about online applications or identifying which questions in an application appear poorly understood.

The customer information used to craft strategy mostly comes from the front-end. Through their partnership, operations and marketing and analysis review Capital One's current risk profile and its future strategy. They also collaborate in permanent or ad hoc cross-functional teams, including a credit policy team that consists of members from both operations and marketing analysis defining credit policies for new products.

Why are processes so important? They incorporate the needs of the customer and the goals of the firm together into product and service delivery. A process view forces managers to think more deeply about the purpose of activities and their expected outcomes, not the names of the activities or their individual, functionally oriented goals (Finnegan & Currie, 2010). Processes must cut through the internal barriers that hamper efforts to build effective customer relationships.

The integration and alignment of organizational processes also require the recognition that the value provided to target customers constitutes the driver of all processes (Kumar & Reinartz, 2016). Outcomes can be used to define and design an organization's processes. Individual processes work in sync with the goal of attracting and retaining target customers. Then incentive-based schemes should reflect and reinforce the relationship approach to customer management processes and outcomes. Stated differently, customer management–compatible incentives drive employee and organizational goals simultaneously. The design of the processes should make feedback automatic, which encourages learning from customer management outcomes to improve functions and refine the process.

The following questions can help firms to assess the extent of integration and alignment of customer centricity in its organizational processes:

- Does the company have a clear understanding of its customers' desired value? Do its processes produce this value?
- Are its various processes in the value chain synchronized to maximize value to the customer?
- Are the processes configured such that they ensure continuous improvement?

3.2.4 Data and Technology Support

Successful CRM also involves collecting and analyze complex customer information (see the ▪ CRM at Work 3.3). Thus, data and technology support plays a central role as an enabler for effective CRM (Jayachandran et al., 2005). Information technology has made processes more efficient, transformed both processes and services, and supported entirely new processes, especially in terms of online activities.

Yet, the availability of data and technology per se is only the first step. In order to support CRM activities, companies need specialized capabilities to leverage data and turn it into actionable information (McKinsey, 2013)—a process that may sound generic but is very hard to execute. Firms that generate and act on intelligence create competitive advantages. The recognition that technology is built around strategy, processes, and people

CRM at Work 3.3

Customer Profiling at a German Telephone Company

A German phone company was confronted with the following question: How do we leverage the enormous amount of data we collect to provide a unique and valuable customer experience? The answer was a combination of predictive behavior analysis and proactive proposal generation. This operator uses call data and demographic data to score each customer on key relationship dimensions. Profitability and behavior are cataloged to create a unique customer profile. These profiles then become the basis for proactively tailored, one-to-one marketing campaigns, delivered directly to customers' handsets. In turn, the operator has been able to reduce customer turnover significantly and increase the average profitability of its mobile customers.

(and not the other way around), thus, is highly important. Data and technology can make customer management processes not only more efficient but also more effective, for example by creating new processes and channels based on online and wireless applications.

Three questions can help reveal where a company's position with respect to data and technology in support of CRM activities:

- Does your organization harness the enabling capabilities of IT systems in terms of customer management?
- How timely and relevant is the available customer information?
- Are you able to turn data about customers into information that can be acted on?

3.2.5 CRM Implementation

Strategy means nothing without execution (Martin, 2010). Therefore, we assert that implementation aspects should be part of the CRM strategy and considered right from the start of any CRM initiative. In fact, that strategic perspective of CRM (see above) also implies that development, refinement and implementation of CRM principles and processes within the organization have to considered as an iterative process. Implementing CRM comprises several processes and activities, as captured in the *CRM Implementation Matrix.* This matrix encompasses the vast scope of potential activities and is structured along two key dimensions (Reinartz, Krafft, & Hoyer, 2004):

1. **Customer dimension:** Pertains to the changing phases of a customer–firm relationship (customer acquisition, growth, retention, exit).
2. **Management dimension:** Activities and processes that constitute analytical CRM (i.e., to obtain a good understanding of customer needs, behaviors, and expectations) and operational CRM (to roll out and manage interactions with customers across all demands).

The implementation matrix (Fig. 3.3) maps a set of managerial activities and processes onto various phases of the customer–firm relationship. Each cell in the matrix corresponds to a specific implementation activity or process.

Marketing-driven CRM implementation thus is characterized by:

- Activities and processes that constitute both analytical and operational CRM. They might include customer data collection, satisfaction and loyalty metrics, customer needs analyses, relationship economics, or segmentation for example.
- Activities and processes that constitute operational CRM, such as value proposition management, campaign management, channel management, referral management, and loyalty management.
- The firm's ability to understand the value of the customer to the firm and varied needs of different customers (see the CRM at Work 3.4).

Fig. 3.3 CRM implementation matrix: Specific CRM activities and processes

		Customer Dimension		
		Acquisition Stage	Growth and Retention Stage	Decline and Exit Stage
Management Dimension	Analytical CRM			
	Operational CRM			

3

CRM at Work 3.4

Capital One: Testing New Products

Capital One employs a unique process to improve its offerings constantly through learning about its customers. In the credit card business, individual customer risk is a key determinant of profits. To adjust its product offerings to customer risk, it uses an approach dubbed *poking the bear*. Poking a bear makes it move; incentives make customers react and reveal their characteristics and preferences. Many tests (pokes) administered by the company seek to determine what type of customer behavior will be associated with a certain level of credit risk. For example, offering a higher credit line might make customers with a higher default risk respond (because they need the money), which reveals their higher risk. This method therefore provides a way to learn which customer characteristics might predict risk profiles.

In practical terms, hypotheses about customer characteristics appear in experiments that test which characteristics best correlate with various usage and risk profiles. For example, direct mailings with different texts, designs, and credit conditions go out to a limited group of customers. Their response rates are carefully monitored, as is their behavior during the first months after they receive a card. Capital One can then use this data to determine the value of each direct mail campaign.

Depending on the test, the results may be available after just a few weeks or take as long as several years. As soon as the test results are clear though, Capital One assesses the viability of new products and rolls out the ones with the best potential for success. Because the product development was based on customer data and feedback, its final products are truly mass customized. Test results integrated into the databases can be used again to initiate idea development and product design processes. This strategy has led to an innovative product portfolio with more than 600 credit card products, all very well aligned with their *diverse* customers' needs.

- An acquisition and retention process that continuously aligns the offering with customer needs and values.
- An ability to improve the company's offerings continually by learning about its customers.

Thus, three questions help assess a company's position with respect to its CRM implementation:
- Do you have systematic testing in place to rationalize product development and marketing spending?
- Do processes continually align customer needs and customer value with the product/service offering?
- Does your CRM system provide feedback and improve on the learning from past interactions?

The five elements taken together in an integrative form constitute the complete CRM strategy. They interact and reinforce one another, and each component plays an essential role, with none being sufficient in and of itself. To compete, a firm should at least match its competitors on all components and ensure positive interactions among them. The effects of these positive interactions help CRM champions truly excel.

3.3 Steps in Developing a CRM Strategy

Developing a CRM strategy consists of four steps (Fig. 3.4):
1. Gain enterprise-wide commitment.
2. Build a CRM project team.
3. Analyze business requirements.
4. Define the CRM strategy.

3.3.1 Step 1: Gain Enterprise-Wide Commitment

As we have discussed, strategic CRM involves multiple areas within a company. Therefore, it is important to obtain support from all departments involved (e.g., sales, marketing, finance, manufacturing, logistics) and apply their valuable input when developing the company's CRM strategy. The involvement of multiple departments promotes both cooperation and wider acceptance of the new system by all segments. Generally, enterprise-wide commitment thus includes these attributes:
- Top-down management commitment
- Bottom-up buy-in from system users
- A dedicated full-time project team
- Budget allocation for the total solution

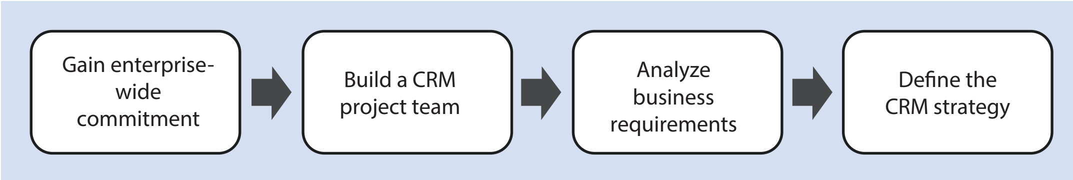


Fig. 3.4 Developing a CRM strategy

To get support from all relevant departments, CRM strategy developers should keep the departments informed of all progress during the development and implementation phases and emphasize the positive results of the CRM strategy.

3.3.2 Step 2: Build a CRM Project Team

Once enterprise-wide commitment has been secured, the next step should be to select the CRM project team, whose members will take responsibility for making key decisions and recommendations, and communicating the details and benefits of the CRM strategy to the entire company. An effective CRM project team should contain active representatives from at least the following areas:

- Management
- IT/technical personnel
- Sales, marketing, and service groups
- Financial staff
- External CRM expert

Management

Management should provide leadership, motivation, and supervision of every step of the CRM strategy development, especially if it entails significant changes to business processes, organizational structures, or roles and responsibilities. Managers typically evaluate a CRM strategy according to basic criteria, such as

- Will the CRM strategy provide information required to make key decisions?
- Will the CRM strategy significantly impact and improve existing processes?
- Will it significantly reduce costs?
- Can the return justify the investment?

IT/Technical Personnel

The development of a CRM strategy requires a comprehensive analysis of the company's current and envisioned information system, so the IT department plays an important role. Moreover, the technical group must be actively involved too, because it can provide valuable input regarding decisions which CRM processes can be automated. Furthermore, they should ensure the CRM system is compatible with existing software applications.

Sales, Marketing, and Services Groups

These departments often are the final users of the CRM system, after the strategy has been developed and implemented. A CRM strategy is successful only if the users are satisfied and comfortable with the final CRM system. Involving sales, service and marketing representatives in the development of the CRM strategy helps to evaluate the potential system's usability from a user perspective. Potential solutions can be evaluated based on the following three criteria:

1. **Effectiveness:** Users must be able to complete the tasks they wish to perform. An effective system is paramount, because it determines outcome quality.
2 **Efficiency:** Efficiency measures the required input for completing any given task. In view of the many users of a final CRM system, minor efficiency improvements can have significant effects on the firm's overall productivity.
3. **Satisfaction:** If the final CRM system is not user friendly, users will not make full use of the potential benefits, which may put the business case for the new CRM system at risk. Many CRM initiatives have failed because of users' resistance to new practices.

Financial Staff

A CRM strategy must also be evaluated from the financial point of view. Finance department members of the CRM project team can provide critical analyses of the proposed CRM strategy with respect to (1) increased sales productivity, (2) operating costs, (3) costs of system expansion, and (4) ROI forecasts.

External CRM Expert

In many cases, external CRM experts (business consultants, vendors) can be very helpful for developing a CRM strategy, if the company lacks sufficient CRM expertise, experience, or technology. A consultant's experience can provide a valuable source of objective information and feedback. In particular, an external observer can help analyze the company's real business needs, assist with the formation of the project team, and work with the team to review, amend, and approve functional specifications. Choosing this external expert and deciding when and how to integrate this source thus may be a critical element of the success or failure of the CRM project.

In addition to these work groups, the CRM project team may contain members from other internal or external parties (e.g., personnel responsible for managing relationships with suppliers, strategic partners, investors), if necessary, to ensure the CRM strategy addresses relationships with all important parties.

3.3.3 Step 3: Analyze Business Requirements

An effective CRM strategy must be based on the firm's business requirements. An analysis of business requirements, with the objective of gathering information on a company-wide basis, assesses the current business state and identifies problem areas (Rigby & Ledingham, 2004). This process is absolutely critical to develop a good CRM strategy. Therefore, this step should feature a series of sessions and surveys to canvass top sales, marketing, and customer service managers to gather their expectations; a consensus should be formed as the result. Company-wide goals should be defined, along with objectives for each department and work group. Special care should be taken to acknowledge and evaluate all ideas so participants feel they are part of the process. Ideas that seem unnecessary or unrealistic may be eliminated later during the development of the CRM strategy.

At this juncture, information on specific problem areas must be gathered uniformly to identify particular goals and define objectives for the entire company. After gathering information, it should be able to take the following ten steps:

1. Identify the services and products being supported.
2. Map current workflows, interfaces, and interdependencies.
3. Review existing technologies, features, and capabilities.
4. Discuss the vision for the business and the operational plan.
5. Define business requirements.
6. Develop enhanced business workflows and processes.
7. Identify gaps in technology functionality.
8. Map functionality to business processes.
9. Develop a new technology and functionality framework.
10. Develop a conceptual design and prototype plan.

The following sample CRM survey questions are designed to gather crucial information from different departments for developing a CRM strategy:

- What functions do you perform?
- What types of data do you use?
- How do you interact with customers?
- What data can be made available to help you better understand customers?
- How can you improve your communication with customers and management?
- How can you reduce administrative and scheduling requirements that detract from the time available to build relationships?
- How involved are you in outreach activities such as telemarketing and direct mail?
- What are your reporting needs and requirements?
- How are you involved in lead tracking, lead follow-up, data transfer, and other daily actions, and how can these processes be improved?

The survey results—including input from end users of the CRM system, such as the sales force, customer service representatives, marketing personnel, order fulfillment, and account management staff, or those who deal with customers on a daily basis—must be gathered carefully. These informants know what changes are necessary to develop and improve customer relationships. From an analysis of business needs, the firm can identify the functions that need to be automated, as well as discover the basis for determining which technological features are required.

3.3.4 Step 4: Define the CRM Strategy

The business requirements gathered in step 3 represent the key ingredients for drafting the CRM strategy. In this step, it is essential to tailor the CRM to the specific requirements of the respective company. That is, different internal (e.g. capabilities) and external (e.g. client segments or competitiveness of the industry) circumstances warrant different approaches to CRM and thus make each CRM strategy unique and specific to a company. Yet, there are some general aspects that should be considered when drafting a CRM strategy (Fig. 3.5).

Value Proposition

The goal of a CRM strategy is to retain strategically important customers, and the objective of customer retention is to develop, communicate, and deliver value propositions that meet or exceed customer expectations. The value proposition in turn is a multifaceted package of product, service, process, price, communication, and interaction that customers experience during their relationships with a company. It is the soul of the company's business, in that it differentiates the company from others. If the value proposition is not affected by an investment in CRM, the company is not as customer-centric as it needs to be or it lacks a basic understanding of what its customers value. The value proposition must address three areas:

- What customers value.
- What the company says it offers the customers.
- What the company actually offers the customers.

The company should strive to offer what customers value; if all three elements of value proposition are not aligned, the company likely cannot achieve customer centricity, because it is not delivering actual value to customers.

Customer Strategy

A customer strategy defines how the company will build and manage a portfolio of customers. A portfolio likely consists of customer segments differentiated by the actual or perceived characteristics of those customers. An effective customer strategy covers at least these four areas:

1. **Customer understanding:** To develop, communicate, and deliver a satisfactory value proposition, the company must understand its customers' expectations. We can distinguish two types of expectations: *Will* expectations relate the level of performance that customers expect to occur. *Should* expectations relate to the level of performance thought ought to happen from a customer's point of view (Ho & Zheng, 2004). Customers benchmark their expectations against their past experience and best-in-class standards. To understand customers' expectations, a company should have effective customer segmentation and obtain as much customer data as possible regarding their needs (active

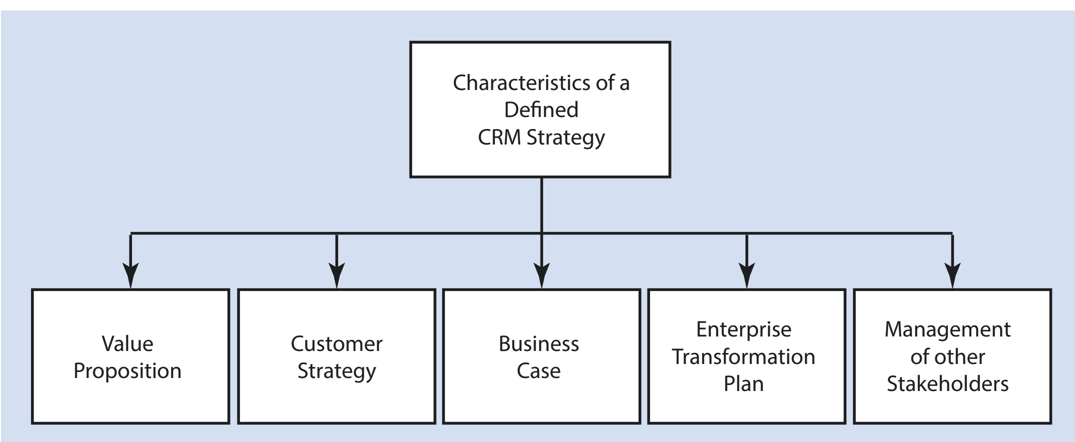


Fig. 3.5 Characteristics of a defined CRM strategy

and passive) for products and services, then extract information from the data using specific analytical tools.
2. **Customer competitive context:** The company should be aware of how its competitors are servicing their customers and how it should retain and increase its share of customers in the competitive marketplace.
3. **Customer affiliation:** Customer affiliation is critical because it is a primary factor affecting a company's ability to retain and extract greater value from the customer through cross- and up-selling. Comparative assessments of the strength of customer affiliation affect strategies for customer retention.
4. **Customer management competencies:** The company must have a defined standard process about who should and how to manage customers. To retain its customer management competency, the company also needs to benchmark its management against that of its competitors and improve it continuously. The best way to meet customers' expectations may be to provide them with customized instead of generic offers. Customized offers should include not only customized products but also services, processes, distributions, communication, and even prices.

Business Case

The business case for CRM determines whether the company will meet its specific and measurable expectations from its investments. An effective business case should directly link the delivery of customer value with the creation of shareholder value, exhibit a good return on investment (ROI), and account for three areas:

1. **The planned increase in the economic value of the customers over the duration of their connection with the company:** The lifetime value, risk involved in unlocking that value, and growth potential by a customer segment should be considered.
2. **Reference and referral effects:** The preceding calculations alone cannot justify ROI. If the company is investing more to satisfy the needs of customers, there should be a significant impact in the form of increased customer acquisition through referral. Thus, a value must be placed on new customers who have been acquired as a result of the investment.
3. **The impact of learning and innovation:** The enhanced learning and innovation resulting from CRM add more value by reducing the cost incurred by the company through higher marketing effectiveness and improved products and services delivered to customers.

Enterprise Transformation Plan

The transformation required by a CRM strategy must cover these six areas:

1. **Business process:** All primary business processes should be assessed from the perspective of the customer strategy to determine whether the distinct needs of the customer are met and, if not, how to do so.
2. **Organization:** Most customer strategies result in organizational changes, which include cultural changes.
3. **Location and facilities:** Particular locations that customers visit have profound impacts on their perceptions of the company, so the physical assets of the company must be adjusted to match the customer-centric strategy.
4. **Data flows:** A CRM strategy should contain a data strategy, covering all aspects from collecting data, transforming data, extracting actionable information and finally distributing the results to different users (staff and customers).
5. **Application architecture:** To implement a CRM strategy, the application architecture should be changed to feature new application software—or at least to integrate existing software in new ways.
6. **Technology infrastructure:** A CRM strategy definitely requires a change to the technology infrastructure, including new hardware, new operating software, and operations personnel.

Management of Other Stakeholders

Strategic CRM is a comprehensive practice involving all facets of an organization. In addition to the focal firm and its customers, there is a host of stakeholders that need to be taken into consideration when defining a (new) CRM strategy. Stakeholders of a company include *management, customers, employees,* and *partners* as well as *owners/investors*. *Management* initiates CRM and takes the responsibility to ensure that in the comprehensive CRM strategy, the relationships with all stakeholders are effectively managed. Because strategic CRM is a top-down approach, it succeeds only if management is committed to the CRM strategy.

Apparently, the relative importance of individual stakeholders for a strategic CRM approach may differ across industries or businesses. For example, in industries in which customers derive satisfaction mostly by interacting with employees (e.g., hotels), employees are essential to achieve a high value proposition to the customer. Yet, *customers* are of course the major focus of a CRM strategy because customers are the only source of revenue whereas relationships with all other stakeholders generate costs.

Employees are involved in the execution of the CRM strategy. The employees' behaviors can have positive or negative effects on the customer's value perception. Employee satisfaction is an important driver of customer satisfaction, especially for businesses in the service industry. Therefore, a company's CRM strategy must address employee satisfaction to increase customer satisfaction.

Partnerships such as strategic alliances and joint ventures enable their participants to share technological know-how and customer data, develop new products more rapidly, and share costs as well as risks. As a result, these participants enjoy lower costs, better customer insights, and eventually a broader customer base, all of which enables them to provide additional value to their customers. As part of its CRM strategy, a company must have such a partnership strategy to identify the strategic area in which partnerships are necessary, determine the ideal partner profile, search for appropriate partners, enter a strategic alliance agreement, and manage its ongoing partnerships.

Competitors also play a major role, because any firm is always compared with the other players in the market. The key is to provide better value than competitors, as well as use them to benchmark the firm's own strategy and definition of success. Similarly, *external factors* always play a critical role in devising any strategy, though firms have little to no control over them. Yet before developing its CRM strategy, the firm should perform its own SWOT (strength-weaknesses-opportunities-threats) analysis, so it is ready to exploit the opportunities and face the threats by relying on its own strengths or avoiding its weaknesses.

Finally, a successful CRM strategy also needs to create value for the company's *owners/investors*. From this perspective, creating more value for customers and the company goes hand-in-hand with ensuring owners' benefits. However, conflicts also occur: A CRM strategy focused on delivering higher value to owners in the long term sometimes requires sacrificing short-term benefits, which cannot satisfy owners who seek short-term ROI. Value investors focusing on long-term returns, thus, are more likely to become advocates of a profound CRM strategy.

Minicase 3.1

CRM in the Fast-Moving-Consumer-Goods Industry

Henkel is a globally operating group of companies, offering a wide range of consumer goods extending from detergents, household cleaners, cosmetics, toiletries and adhesives. In Europe, Henkel has held a leading position for decades in the detergents and household cleaners market with brands such as Persil, Dixan, Vernel and Weißer Riese. In the US it is represented with the Dial brand. In the hypercompetitive European retail markets, many of the large manufacturers such as Henkel, P&G, and Unilever have focused on improving and managing supply chain efficiency.

Part of this ongoing activity is the concept of category management, where manufacturers and retailers collaborate to improve the profitability of the category at the store level. However, as an increasing number of firms are mastering the category management process, manufacturers like Henkel are looking how they can differentiate themselves further. This is where many of them have started to experiment with customer relationship management practices. The environment in which these companies operate is characterized by branded products, low absolute margins on a per product basis, and lack of direct consumer contact. In line with the general CRM idea, the goal of a CRM approach would be to identify and target high value customers and to then to devise a retention or growth strategy for them. In practice, this means to allocate disproportionate resources to these customers. Whereas CRM is strongly established in direct to consumer environments such as banking or telecommunications, the exact nature of CRM in the FMCG environment is less clear. Therefore, the challenge that lies in front of firms like Henkel is to define, conceptualize, and implement a suitable CRM approach.

? Questions on Minicase 3.1

1. How would you define and measure customer value to Henkel? Should it define value on the individual level or on the segment level?
2. What is the look and feel of strategic CRM in the FMCG environment?
3. Is there a necessity for manufacturers to partner up with retailers in order to devise an effective CRM strategy?

3

Minicase 3.2

CRM in B-to-B at Deutsche Post World Net

Deutsche Post World Net (DPWN) is a fast growing international logistics service provider. Its portfolio of companies includes its European B to B parcel service EuroExpress, its express delivery service across the globe DHL, and its global logistics provider (air, sea, and road transportation) DANZAS. Revenues for the three divisions in 2001 were approximately €15.5bn with an increasing portion (45%) coming from outside its home market Germany. The central problem of DPWN was that the three companies served in many cases the same customers without knowing this. Each company has its own sales force and was calling simultaneously on many identical clients, for example virtually all of the large companies in Europe. As one would expect, the organizational structures and systems support (IT) was quite different for the three companies. DPWN felt that the group of individual companies could achieve much better results by coordinating their sales efforts, specifically, be being able to systematically cross-sell its various products and services to the many existing clients. Therefore, the company set out to leverage the entire customer base across the three companies and to build an integrated customer management approach. Specifically, DPWN wanted to first create a key account management system that allows the three companies to coordinate their offerings and sales communication to the most important business clients. Given that the three individual companies offered complementary services, the objective was to present «one-face to the customer» with the idea to provide complete logistics solutions for these clients regardless of the type of desired service. The challenges that would lie ahead of DPWN were to (a) create transparency across customer relationships and customer potentials, (b) to design cooperation processes across the three companies, and to (c) develop sales support tools.

Questions on Minicase 3.2

1. How would one define and measure the potential for cross selling in this context?
2. If DPWN creates an integrated key account management system, which key processes need to be integrated across the three companies?
3. What are the barriers to increased cooperation between the companies and thus effective CRM?

Summary

In this chapter, we have looked at CRM from a strategic perspective. When CRM is viewed as a company-level philosophy, such that knowledge about customers has implications for the entire organization, it is referred to as *strategic CRM*. The goal of strategic CRM is to shape interactions between the firm and its customers in a manner that maximizes the lifetime value of each customer to the firm. The five main elements of a CRM strategy are:

1. A CRM vision, which is the underlying rationale of why CRM initiatives are carried out by a company. Ideally, it should be based on the concept of delivering value to customers and extracting value from customers to the company.
2. A culture of customer orientation, which is the set of organizational values, beliefs, and strategic actions that enable the implementation of customer management principles, driven by a top-management belief that the customer is at the center of activity.
3. An integration and alignment of organizational processes, which consist of the creation and synchronization of processes and systems to enable the organization to implement customer management principles.
4. The use of data and technology support, because an understanding of the value provided to target customers drives processes. The processes also work in line with the goal of attracting and retaining target customers.
5. CRM strategy implementation. The processes and activities required for a successful CRM strategy are structured around two key dimensions in a CRM implementation matrix. The customer dimension captures the influence of the changing phase of a customer–firm relationship, and the management dimension comprises analytical and operational CRM.

In turn, developing a CRM strategy consists of (1) gaining enterprise-wide commitment (2), building a CRM project team,

(3) analyzing business requirements, and (4) defining the CRM strategy according to its value proposition, business case, customer strategy, enterprise transformation plans, and other stakeholders.

The value proposition of each firm is a multifaceted package that customers experience, including the product, service, process, price, communication, and interaction. A customer strategy helps build and maintain a portfolio of customers through an understanding of their expectations, competitor contexts, and customer affiliations. The business case determines whether an investment in CRM meets expectations by linking the delivery of customer value to the creation of shareholder value, or ROI. It should take into account not only the economic value of a customer but also the potential for increased customer acquisition through referrals and the impact of learning and innovation. The CRM strategy also demands transformations in business processes, organizations, locations and facilities, data flows, application architecture, and technology infrastructure. Finally, for the development of a CRM strategy various stakeholders of the focal organization should be taken into consideration: Customers, management, competitors, employees, suppliers, and investors. In the next chapter, we will discuss how to carry out investment and operational decisions to implement these various elements of a firm's CRM strategy.

? International Perspectives: Did You Know?

1. Many private banks serving high net worth clients are radically transforming the way they manage customer relationships. At the Swiss private bank Julius Baer for example, in the past the relationship manager was the sole contact for the client. Today, the relationship manager is rather a guide to the bank's service offering including bespoke investment advisory services combined with automated monitoring and recommendation systems. Thus, the bank has built a customer-centric organization that offers modular services depending on the client's requirements (Collardi, 2012).
2. The global sports apparel company Adidas has recently announced that it is about to launch the first 3-D printed sneaker. That essentially means, in the future each sneaker can be fully individualized and produced in batch size one. The move towards a «segment of one» was made possible by significant advances in 3-D printing technology (Bourzac, 2017).

? Exercise Questions

1. Are traditional marketing principles valid in the age of CRM? What are the fundamental differences between transaction-based marketing approaches and relationship-based marketing approaches?
2. What structural changes must an organization undertake to switch from a product to a customer orientation? Should companies start investing in such structural changes?
3. Can a heavily operations-oriented company (e.g., Walmart) benefit from practicing CRM?
4. Have you heard stories of companies that had difficulties in defining a CRM strategy? What was the nature of the problem, and how could it have been solved?
5. What are the key steps in developing a CRM strategy?

References

Becker, J., Greve, G., & Albers, S. (2009). The impact of technological and organizational implementation of CRM on customer acquisition, maintenance, and retention. *International Journal of Research in Marketing, 26*(3), 207–215.

Bourzac, K. (2017, April 7). 3-D-Printed Sneakers, Tailored to Your Foot. *MIT Technology Review.* https://www.technologyreview.com/s/604058/3-d-printed-sneakers-tailored-to-your-foot/. Accessed April 18, 2017.

Chen, I. J., & Popovich, K. (2003). Understanding customer relationship management (CRM): People, process and technology. *Business Process Management Journal, 9*(5), 672–688.

3

Collardi, B. F. J. (2012). *Privat banking: Building a culture of excellence*. Singapore: John Wiley & Sons.
Deshpandé, R., Farley, J., & Webster, F. (1993). Corporate culture, customer orientation, and innovativeness in Japanese firms: A Quadrad analysis. *Journal of Marketing, 57*(1), 23–37.
Edeling, A., & Fischer, M. (2016). Marketing's impact on firm value: Generalizations from a meta-analysis. *Journal of Marketing Research, 53*(4), 515–534.
Finnegan, D. J., & Currie, W. L. (2010). A multi-layered approach to CRM implementation: An integration perspective. *European Journal of Management, 28*(2), 153–167.
Ho, T. H., & Zheng, Y.-S. (2004). Setting customer expectation in service delivery: An integrated marketing-operations perspective. *Management Science, 50*(4), 479–488.
Jayachandran, S., Sharma, S., Kaufman, P., & Raman, P. (2005). The role of relational information processes and technology use in customer relationship management. *Journal of Marketing, 69*(4), 177–192.
Kohli, A., & Jaworski, B. (1990). Market orientation: The construct, Research propositions, and managerial implications. *Journal of Marketing, 54*(2), 1–18.
Kumar, V., Aksoy, L., Donkers, B., Venkatesan, R., Wiesel, T., & Tillmanns, S. (2010). Undervalued or overvalued customers: Capturing Total customer engagement value. *Journal of Service Research, 13*(3), 297–310.
Kumar, V., & Reinartz, W. (2016). Creating enduring customer value. *Journal of Marketing, 80*(6), 36–68.
Lemon, K. N., & Verhoef, P. C. (2016). Understanding customer experience throughout the customer journey. *Journal of Marketing, 80*(6), 69–96.
Martin, R. (2010). The execution trap. *Harvard Business Review, 88*(7), 64–71.
McKinsey & Company. (2013). *Four steps to turn Big Data into action*. http://www.mckinseyonmarketingandsales.com/four-steps-to-turn-big-data-into-action. Accessed November 25, 2016.
Reinartz, W., Krafft, M., & Hoyer, W. (2004). The customer relationship management process: Its measurement and impact on performance. *Journal of Marketing Research, 41*(3), 293–305.
Rigby, D. K., & Ledingham, D. (2004). CRM done right. *Harvard Business Review, 82*(11), 118–129.
Ruekert, R. W. (1992). Developing a market orientation: An organizational strategy perspective. *International Journal of Research in Marketing, 9*(3), 225–245.
SAS. (2015). *Getting to the segment of one*. http://blogs.sas.com/content/customeranalytics/2015/08/21/getting-to-the-segment-of-one/. Accessed November 25, 2016.
Srivastava, R. K., Shervani, T. A., & Fahey, L. (1998). Market-based assets and shareholder Value : A framework for analysis. *Journal of Marketing, 62*(1), 2–18.