

Customer relationship management: A capabilities portfolio perspective

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Abstract Research evidence shows that companies fail to make their customer relationship management (CRM) efforts pay off. This is probably due to the acknowledged lack of guidelines assisting firms to identify and develop capabilities enabling the successful implementation of their CRM system. In this paper, this deficiency is addressed by proposing a list of critical CRM capabilities and articulating tasks for their development within the organisation. The point of departure is a holistic CRM definition, which is grounded on market-orientation, information technology (IT) and integration. Alongside research evidence, it is used as a basis for the development of an overall conceptual framework for CRM capabilities. The framework is analysed and discussed, and practical implications are offered for the firm.

INTRODUCTION

A hyperdynamic market environment, the weakness of the transactional paradigm to explain the nature of relationships between marketing actors¹ and acknowledged difficulties in the implementation of marketing strategies^{2,3} have directed the rapid development of relationship marketing (RM).⁴ Proponents of RM maintain that mutual cooperation and interdependence,⁵ as opposed to competition and choice independence of transactional marketing, results in superior customer value and marketing efficiency.⁶

Although the ideas of RM have been widely discussed, Gummesson's statement that 'the operational contents' of the new

paradigm are 'unclear' still holds.⁷ Reports by some practitioners, however, suggest that customer relationship management (CRM) provides an actual platform for the operational manifestation of relationship marketing.

DEFINING CUSTOMER RELATIONSHIP MANAGEMENT

Customer relationship management (CRM) is becoming an issue of increasing importance for the implementation of marketing strategies.⁸ Yet most business commentators have a fragmented view of CRM. Some consider CRM as an initiative designed to achieve short-term business gains;

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others view it as being a one-dimensional concept, based solely on the collection and interrogation of data⁹⁻¹¹ while others approach it as a new business philosophy.¹²⁻¹⁴ The authors join with the latter group of specialists in that 'CRM is an IT enhanced value process, which identifies, develops, integrates and focuses the various competencies of the firm to the "voice" of the customers in order to deliver long-term superior customer value, at a profit, to well identified existing and potential customer segments'.¹⁵ Implicit within this definition lie three core precepts of CRM namely, market orientation, information technology (IT) and integration.

Originating from the conceptual and theoretical foundation of RM, CRM serves to improve marketing efficiency and enhance mutual value for both parties involved. This is achieved by continuous, organisation-wide acquisition and dissemination of (customer) information and responsiveness to market imperatives.¹⁶ Sophisticated IT systems have advanced the development of customercentric marketing/management in several industrial sectors.¹⁷ Technology facilitates interaction, which is the lifeblood for relationship bonding. Still, it assists not only relationship formation (maintenance or termination) but also value creation through 'production, distribution and facilitation technologies'.¹⁸ With the advent of technology, complex business processes can be integrated to ensure flawless circulation of ideas, information, products and services. But, most importantly, integration refers to the alignment of strategic components in the organisation¹⁹ and the coordination of human resource management activities.^{20,21}

To date, much of what has been written on CRM is from the practitioners' point of view. Initially these

writings welcomed CRM as the answer to the riddle of corporate effectiveness. Yet, despite the promising results, many companies failed to make their CRM initiatives pay off and soon CRM was criticised for the elusiveness of its benefits.^{22,23} One probable reason for the discrepancy between theory and practice is the lack of guidelines assisting firms to identify and develop capabilities enabling the system. This deficiency is addressed by proposing a list of critical CRM capabilities derived from several bodies of literature and further articulating tasks for the development of these capabilities within the organisation.

CORE CAPABILITIES

In order to identify CRM capabilities, it is first essential to clarify the meaning of the term. Capabilities are characterised as core if they differentiate an organisation strategically.²⁴ They are alternatively called core or organisational competencies,²⁵⁻²⁷ distinctive competencies,²⁸⁻³⁰ firm-specific resources³¹ or invisible assets.³²

Competencies usually have a technology or knowledge-based component and result from 'blending technology and production skills',³³ whereas capabilities are rooted in business processes and encompass the value chain.³⁴ The present authors adopt Mahoney's and Pandian's view of capabilities as the capacity to deploy resources by integrating knowledge, business processes and organisational learning³⁵ and add that capabilities are sets of business processes strategically understood to deliver value to the customer.³⁶

The positive link between capabilities and competitive advantage is frequently reported in literature³⁷ but not without complexities. There are two threats that endanger this relationship: imitation and

substitution.³⁸ Intrinsic characteristics of capabilities such as complexity, ambiguity³⁹ and tacitness partially combat the threat of imitation.⁴⁰ On the other hand continuous improvement, commitment to customers and suppliers (lock-in) and market deterrence⁴¹ protect capabilities against substitution.

Despite the conceptual challenge and the practical implications for identifying and developing capabilities, few guidelines exist to assist firms in that direction.⁴² Moreover, little research has looked at how specific tasks call for the development of unique capabilities. Yet, bearing in mind that the essence of capabilities is embedded in processes,⁴³ it is further proposed that analysis of the latter leads to identification of the former. Ultimately, the authors approach the CRM process and the issues that have been postulated above as a basis for the identification of CRM capabilities.

AN AXIOMATIC VIEW OF THE CRM PROCESS

Relatively little is known about the CRM process since there is no field-based empirical research to provide a clear picture of the system's process complexity. Peppers and Rogers suggest that the CRM process could be thought of as a series of four steps: identify, differentiate, interact and customise.⁴⁴

The first step refers to the detailed view of the customer across several points of interaction. Differentiation pertains to the diverse needs and value potential of the customer base and provides direction for further interaction and customisation of the product or service offering. Yet this view of the CRM process has been subjected to criticism mainly because it emphasises mass customisation which is a productcentric approach and considers the product to be the starting point of

the planning process.⁴⁵ A more detailed approach to the CRM process, consisting of the building blocks shown in Figure 1, is adopted here.⁴⁶

Creating a corporate culture conducive to customer orientation, learning and innovation

Corporate culture is acknowledged as by far the most significant determinant and the greatest hurdle for the course of the CRM system.⁴⁷⁻⁵⁰ For CRM to thrive, a cultural focus that encourages processing and cross-functional sharing of information and knowledge appreciation is essential.⁵¹ Since employees' performance determines the quality of customer experience, cultural values should promote a concern for organisational participants.⁵²

Making customer value a key component of the corporate strategy and planning process

Corporate culture inspires commitment to common goals and vision,^{53,54} these are the two cornerstones of corporate strategy and planning process. In the context of CRM, goals entail profit orientation through customer, employee and stakeholder satisfaction, relationship building⁵⁵ and superior value delivery whereas long-term vision is perceived in terms of customer value and focus.

Collecting and transforming customer data to aid strategic and operational decision making

The CRM process is fuelled by information flows, which contribute to customer insight generation. This requires information selection and transformation for strategic and operational purposes. Information acquisition refers to the integration of

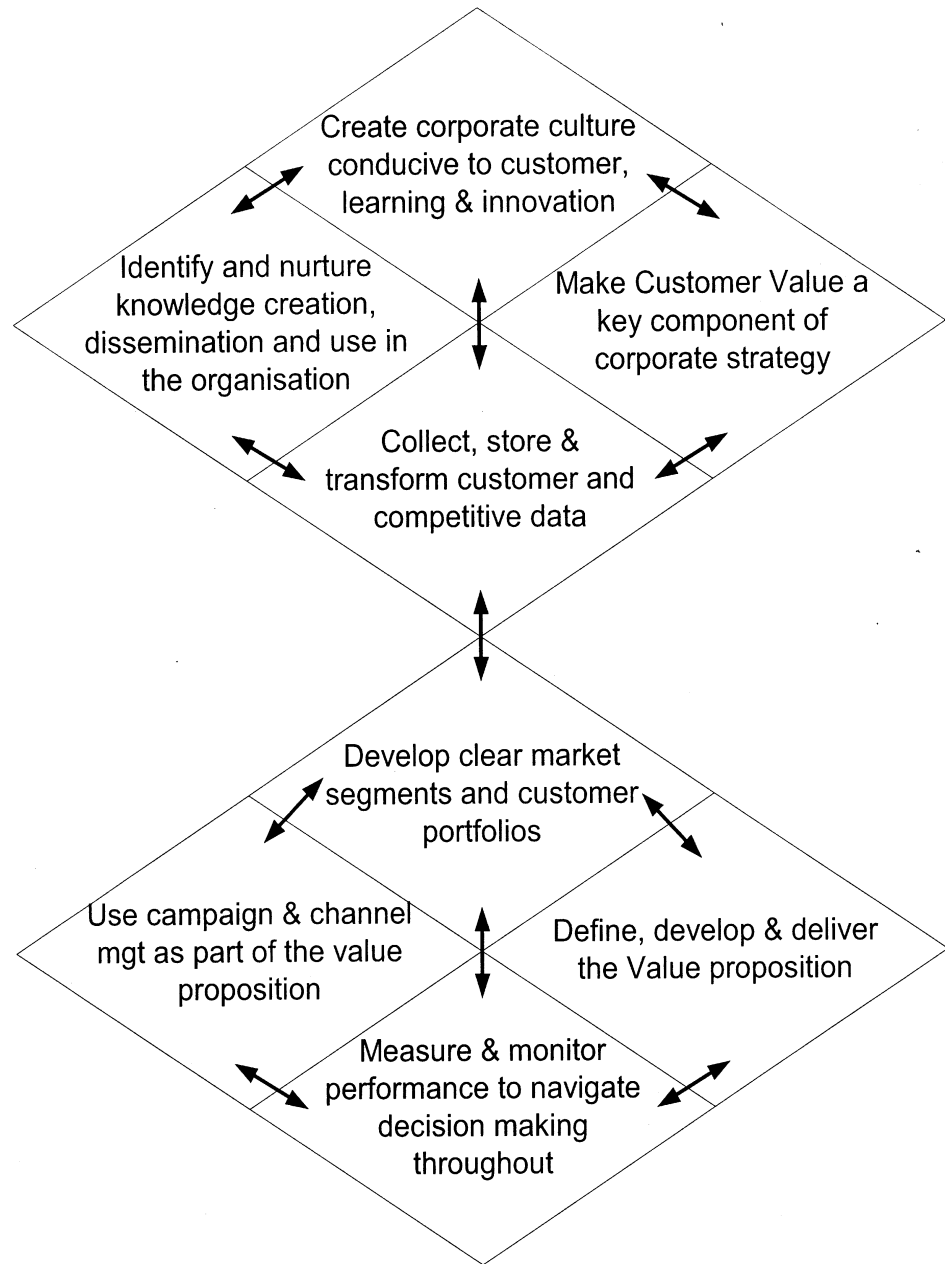


Figure 1: Building blocks of CRM – A process view

data flowing from customer contact points into the knowledge database. This task is not always easy since customer information is scattered between several databases and functions in the organisation and depends on the capacity to store, maintain and access

millions of data elements⁵⁶ in an acceptable time span. Information transformation depends on analytical skills such as data mining and customer profiling and supplies a holistic view of the customer base at individual or aggregate level.

Appreciating, identifying and nurturing knowledge creation, dissemination and use within the organisation

As companies embrace CRM, they realise that employees need to be introduced to new processes, knowledge and technologies and develop a mindset and skills for relationship building. Unless learning is appreciated, however, it is unlikely that individuals and the organisation will renew and deploy intellectual assets.⁵⁷

Developing clear market segments and customer portfolios

CRM enhances the efficiency of market segmentation by a) utilising a variety of sophisticated segmentation techniques based on multiple information sources and b) enabling the measurement and targeting of profitable customers (customer lifetime value and value exchange index).

Defining, developing and delivering the value proposition

Ultimately, customer insight is translated to product and service offerings and delivers constantly differentiated treatment. The authors borrow Webster's⁵⁸ view of the value proposition as a set of value defining, developing, and delivering processes and stress its dynamic character.^{59,60}

Using campaign and channel management as part of the value proposition

CRM replaces the broadcast mentality of traditional marketing; it relies on a two-way information flow and attempts to reach customers with appropriate information and tailored messages.⁶¹ This is achieved through campaign management

(CM) which automates the planning, execution and evaluation of targeted marketing initiatives designed to influence customer behaviour.⁶² CM enables companies to design the combination of traditional and new channels of distribution and communication (channel mix) according to individuals' needs. Channels are parts of the value proposition and considered effective if they can meet a customer's needs and 'return a superior performance over other means of creating customer satisfaction'.⁶³

Measuring performance at each stage of the process to navigate decision making

The justification of the CRM system is anchored in future performance and is often hindered by the lack of proper measures integrating several activities of the firm.⁶⁴ Srivastava, Shervani and Fahey argue that it is essential for CRM specialists to develop, nurture and leverage market-based assets in order to assess the impact of CRM on corporate performance.⁶⁵ Market-based assets, visible or not visible in the balance sheet, tangible or intangible, result from the firm's interface with 'external market entities'. They contribute to value generation and are further distinguished as relational (outcomes of firms' relationships with interest parties) and intellectual (types of knowledge that firms possess). In this regard, performance measurement requires identification and cataloguing of market-based assets by cross-functional teams and integration of metrics from product and market performance to inventory levels, capital needs and financial costs.⁶⁶ The balance scorecard is often used for integration of performance measures. It translates corporate vision to strategic goals and further into four sets of performance

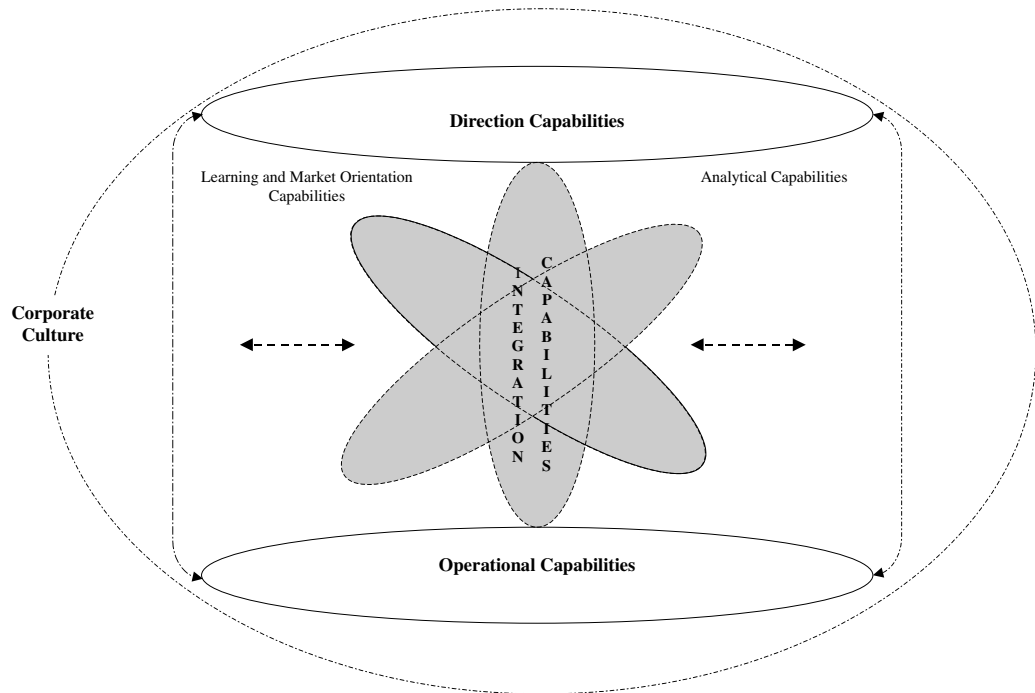


Figure 2: CRM capabilities – A conceptual framework

measures referring to financial measures, customer satisfaction, internal processes and innovation and improvement.⁶⁷

CRM CAPABILITIES: A CONCEPTUAL FRAMEWORK

As stated above, capabilities and processes are closely ‘en-twined’.⁶⁸ Having as a starting point the CRM process it is proposed that the following set of capabilities determine the success of the CRM system (and see Figure 2).

Learning and market orientation capabilities

The learning process has been closely linked with market orientation.^{69–72} The present authors capitalise on that premise and suggest that market orientation and learning capabilities are closely related and deeply embedded in the CRM system in customer insight generation and knowledge discovery,

value and performance measurement processes. Customer insight generation occurs through learning and requires information inputs, which are converted by the players involved to information outputs for sense or decision-making purposes.⁷³ Furthermore, engaging customers in ‘learning relationships’⁷⁴ is part of value maximisation. Creation of customer value as a process itself demonstrates market-oriented behaviour⁷⁵ and depends on customer service, innovative product development, cost-effective manufacturing and quality management. Finally, commitment to customer and learning goals is also demonstrated in attentive listening to customer response across all channels and points of interaction to measure and improve corporate performance.⁷⁶

Integration capabilities

‘Weaving’ business processes together into capabilities mandates integration.⁷⁷

CRM is an organisation-wide investment that seeks to maximise the value delivered to the customers by personalising conducts and offerings. Potentially all individuals and organisational units contribute to that process.⁷⁸ Hence, interfunctional coordination⁷⁹ based on alignment of functional areas, promotion of interdepartmental connectedness,⁸⁰ information sharing and strategy integration⁸¹ is an imperative for supplying superior value to customers. Additionally, the use of shared resources with other business units presupposes integration of all business systems starting from back-office infrastructure and extending to frontline systems and channels of interaction.

Analytical capabilities

Analytical capabilities are linked to technological artefacts and knowledge and hold an active role in enhancing relationships with customers.⁸² They facilitate acquisition and transformation of information to aid customer knowledge discovery and development of clear market segments and portfolios. But, most importantly, analytical capabilities enhance profitability maximisation from customer relationships⁸³ since they enable firms to link investments to customer relationships more directly with the return they generate.⁸⁴

Operational capabilities

Operational capabilities utilise and enhance resources. They are skills developed at functional and administrative levels⁸⁵ that translate customer information into service offerings. Operational capabilities cut across the customer value process.

Direction capabilities

CRM initiatives suffer from strategic focus. This last group of capabilities — often underestimated by CRM commentators — is the compass for the course of the CRM system and the organisation. Direction capabilities depend on strategic skills and reflect the sharpness of corporate long-term vision and organisational values. They ensure that the value proposition of the firm truly differentiates the offering in the eyes of the customer. Ultimately, they assess ‘the soundness of the strategic plan the company has formulated to operationalise its vision’.⁸⁶

WHERE TO NOW?

In this paper the authors put forward an axiomatic view of the CRM process and used it as the basis for outlining capabilities critical to its successful development and implementation. The authors feel that it is too early to articulate any normative prescriptions for the development of CRM capabilities since this area is largely unexplored. This paper is the first attempt in this direction and as such it should be seen as providing the first outline of a context which can assist firms to approach their CRM effort strategically.

From a managerial perspective the CRM process outlined in this paper can be used as a guiding tool, navigating the CRM development and implementation effort. Borrowing insights from research on the development and implementation of administrative innovations within organisations (it is reasonable to suggest that CRM is such an innovation), the authors recommend a balanced attention to all building blocks of the CRM system. The completeness of the process is a very important factor since, as it was debated in this paper, it is the process that defines the required capabilities for CRM.

In addition, the discussion on capabilities helps raise the debate on CRM to a higher level. It positions CRM within the strategic echelons of organisational decisions. As such it helps managers realise the wider spectrum of capabilities needed for its successful implementation, as well as its role in the further development of these capabilities. It also helps them assess their performance at various stages of the process and for various capabilities since the vast majority of the concepts involved are measurable.

To conclude, CRM is an odyssey. Unless firms develop an understanding of the trip (process) and its requirements (capabilities) they will find it difficult to navigate towards their final destination which is 'the delivery of long-term superior customer value, at a profit'.

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