

Why should SME adopt IT enabled CRM strategy?

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Recent trends of fast adoption of CRM, whether as a philosophy, a strategy, an aid to the general marketing effort and mix, or merely as a fashion; as every body else is doing it; is driven by a clear acknowledgement and recognition that long-term relationships with customers are one of the most important assets of an organisation and that information-enabled systems must be developed that will give the organisation some form of ownership, that is: 'customer ownership'.

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Successful long term customer retention will most likely result in improved customer loyalty manifested in regular and repeated profitable business for the company. Narrow functionally-based traditional marketing is being replaced by a new form of cross functional marketing - CRM. Traditional approaches to marketing have been increasingly, and gradually adjusted or wholly replaced questioned in recent years, focusing on the total picture, not only the mere management of the key marketing mix elements such as product, price, promotion and place within the functional context of the marketing department.

Customer Relationship Management (CRM) is rapidly emerging as a key element that performs a major role in realising corporate strategy of many organisations, large and small.

Large organisations, typically employing over 1000 people, do possess correspondingly large pools of resources, while medium sized organisation, employing some 100 to 999 personnel, may not have the luxury of open ended resources, nor can they any longer guarantee an open ended future, without properly marketing their presence effectively than ever before, and especially when considering matching larger rivals in both image and quality of offerings, whether through their traditional marketing approach, or thorough adoption of the most optimised technology based Targeted Customer Information systems that underpins their holistic approach to managing their relationships

with their clients, aiming to provide maximum satisfaction of the total customer experience, before acquisition, during transaction period, and long thereafter.

CRM, may also be described as "relationship marketing", or, 'customer management', where it has been connected with all activities connected with the creation, development and enhancement of individualised customer relationships with carefully targeted customers and customer groups resulting in maximizing their total customer life-time value.

Now CRM in its current approach, whilst recognising that the above mentioned key elements still need to be addressed, whether in the traditional way, or through new emerging e-tools, reflects the need to create an integrated cross-functional focus on marketing - one which will be focused upon keeping, in addition to winning customers. The focus is therefore shifting from customer acquisition to customer retention, through fostering customer loyalty, and ensuring the appropriate amounts of time, money and managerial resources are directed at both of these key tasks. The new CRM is a new shift towards a sustainable long term management process.

In many companies there is still confusion as to what CRM is all about. To some it is about a loyalty scheme, to some it is about a help desk. To others it is about a relational data base for key account management and for others it is about mass profiling the customer base without undertaking detailed segmentation. Relatively few organisations have im-

plemented an integrated approach, which addresses all the key strategic elements of CRM. Only a small number of businesses have a clear idea what should be done with information technology in order to effectively implement a successful CRM.

The amount an organisation spends on marketing is not necessarily related to its marketing effectiveness. Some organisations undertake relatively little marketing activity and as a result have a fragmented customer base, poor market positioning and low levels of marketing effectiveness.

Other organisations have been successful with relatively little expenditure on marketing. For companies such as Virgin Atlantic, The Body Shop and First Direct, public relations and word-of-mouth marketing have been very important to them, so that despite fairly low levels of advertising spend they are highly effective in their marketing.

Many organisations, despite heavy investment in marketing departments and marketing activities, have achieved poor results from their marketing effects; quite a number of financial services companies fall into this category. Relatively few organisations have adopted relationship marketing and CRM approaches to effectively harness the tools of marketing to deliver real increased customer value and, with the help of technology, developing appropriate long-term relationships with customers.

To achieve success, businesses need to have the appropriate measurement systems and marketing metrics in place to ensure their effectiveness in terms of their use of customer-focused resources. Over the past two decades businesses have developed sophisticated approaches to measurement in other functional activities within their business - in Operations, Finance, IT and Human Resources. However, the Marketing function may be the last bastion of inadequate and inappropriate metrics. A famous businessman is reputed to have once said that: "Half the money I spend on advertising is wasted - the trouble is I never know which half it is." This approach to marketing is no longer appropriate or acceptable.

Traditional marketing activities which emphasise customer acquisition are no longer sufficient. CRM recognises that marketing starts after the sale is over, not when the sale is completed.

The role of information technology in CRM

In considering how CRM should be implemented, information technology has a pivotal role to play in enabling Medium sized companies, in particular, to maximize profitability through more precise targeting of market segments and the micro segments within them. We are now in a new era of technology-enabled marketing which involves leveraging relationships through the use of technology. Powerful new technological approaches involving the use of data bases, data marts, data warehouses, data mining and one-to-one marketing are now assisting organisations to increase customer value and their own profitability.

Technology can greatly assist in managing the data required to understand customers so that appropriate CRM strategies can be adopted, and further strengthen medium sized companies competitive position, and, at the same time, the use of IT can transform basic raw data into useful metrics aiding in company's effort when determining the economic parameters of customer acquisition, retention and life-time value.

Research shows that a 5% points increase in customer retention yields a profit, in net present value terms, of between 20% and 125%. Although many managers are now familiar with these findings, our research shows that few managers know the profit impact of retention **in their own business**. Few companies do even segment their customer base by life-time value. A result, they may not adopt appropriate retention and acquisition strategies.

To improve customer retention; three main steps are required: customer retention measurement, identification of root causes of defection and related key service issues (Customer satisfaction); and the development of corrective action to improve retention.

Measurement of existing customer retention rates is the first critical step in the task of improving loyalty. This involves measuring retention rates and profitability analysis by segment.

Regardless of the approach taken to modeling the econometrics of acquisition and retention, life-time value will not only need to be identified by market segment, but will also need to address how to improve it. Clearly improving retention can have a huge impact on life-time profitability. The business will also need to consider how they will get the greatest benefit from their acquisition activities.

In business-consumer organisations that do deal with a large number of customers, a critical issue will be increasing the quality of how to handle customer contact through tools such as sophisticated call-centers and e-commerce.

The ultimate objective of this will be to identify opportunities for increased profitability through enhanced customer acquisition, improved customer retention and targeted cross-selling.

Developing appropriate metrics

Central to achieving success will be the development of new metrics to measure performance in CRM **across the business**. It is increasingly being recognized that there are linkages between employee-satisfaction, employee-retention, customer-satisfaction, customer-retention, sales and profitability.

To successfully implement the total service-profit chain model, culture-change, impacting the behavior of leadership to take responsibility for the company's culture and to understand how this impacted, in turn, on company's revenues. In addition, employee-rewards need to be aligned to the same model for financial and non-financial measures. A further pre-requisite change is the streamlining of IT systems into a single, integrated system.

CRM implementation issues

Where CRM is well understood as a concept, many board-level managers are still unclear

as to **how** a particular CRM approach should be cost-effectively implemented and what technology options should be adopted.

The starting point for introducing or further developing CRM must be determined from a strategic review of the organisation's current position. Companies need to address six broad issues:

- what is our core business, and
- how will this evolve in the future;
- what form of CRM is appropriate for our business now and in the future;
- what IT infrastructure do we have, and
- what do we need to support the future organisation needs; and
- what vendors and partners do we need to choose?

An organisation should first examine its core business and consider how will it evolve in the future. It then needs to consider the form of CRM that is appropriate for their business now and in the future and what organisation resources does it have to support the business now and in the future.

Having identified the present and future focus of CRM, the organisation then needs to address the appropriate information architecture to enable their CRM strategy to be implemented. Stated simply the task is how can we exploit technology for improved CRM.

As organisations increase their sophistication they will need to creatively integrate these technologies. "planned evolution" is a good way of summarising the technology approach to building the backbone to support the relevant CRM strategy that has been mapped out for the business.

An essential element of achieving successful implementation is to ensure that their strategy is underpinned by viable and appropriate technology architecture. This involves the selection of vendors and partners based on issues of customisation capability and other appropriate commercial factors including both technological and commercial criteria.

In the very near future, Customer Relationship Management will have advanced considerably and we will have reached much more sophisticated level of one-to-one marketing and data mining. There is now an

enormous opportunity for organisations to improve their 'customer ownership' by building a co-ordinated and integrated set of activities which address all the key strategic elements of CRM.

Ultimately, however, organisations' success in CRM will involve creating an appropriate strategic vision for the future, making the appropriate choice of applications, creatively using appropriate analytical techniques to exploit the data, and choosing the right vendor for supply of the technology solution.

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